TESTIMONY OF
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EXECUTIVE DIRECTOR
ALLIANCE FOR AMERICAN MANUFACTURING
BEFORE THE
JOINT ECONOMIC COMMITTEE
HEARING ON
"MANUFACTURING IN THE USA: WHY WE NEED A NATIONAL MANUFACTURING STRATEGY?"
JUNE 22, 2011

Chairman Casey, Vice-Chairman Brady, and members of the Committee, I want to thank you for taking the time to examine the state of American manufacturing and for inviting me to testify on behalf of the Alliance for American Manufacturing.

First, I would like to introduce the Alliance for American Manufacturing to you. We are a partnership formed in 2007 by some of America's leading manufacturers and America's largest industrial union--the United Steelworkers--to work in a cooperative, non-partisan way with one goal: strengthening American manufacturing and therefore our nation's economic and national security. Our mission is to provide policymakers like you with credible analysis of the issues, as well as innovative policy ideas to move us toward effective solutions. In an increasingly intense partisan climate, we believe that our labor-management partnership can help identify appropriate avenues for cooperation. In our first four years, we are proud to have helped spur a robust debate on a manufacturing strategy for our nation.

We believe, as we imagine you do, that a strong and vibrant manufacturing base is essential to our nation's economic stability, a strong middle class, and employment opportunities for young men and women across America. We also believe that our nation will never realize its full potential to grow the manufacturing sector of our economy without a robust strategy and aggressive set of public policies to complement private sector efforts by business and labor to maintain a globally competitive industry.

The idea of a manufacturing strategy is hardly a radical concept, and a robust strategy has been at the core of American economic policy for all but a few, brief periods of our history. Today's dearth of public policy to boost manufacturing is the exception, not the rule, dating all the way back to our Founding Fathers.

Alexander Hamilton constructed America's first industrial policy in 1791. Setbacks during the War of 1812 due to a lack of domestic capacity to build naval vessels and military equipment cemented the determination of the federal government to grow manufacturing, a policy that continued until the end of World War II. Globalization and economic approaches favoring imports and domestic consumption over exports and production have helped to steadily erode manufacturing as a percentage of Gross Domestic Product, private sector employment, and other key measures.

The idea of a manufacturing strategy is also not a partisan one. President Reagan--spurred on by a Democratic Congress--adopted a flurry of measures to counter a grossly imbalanced trade relationship with Europe and Japan in the 1980s. The Plaza Accords, which raised the value of currencies in Japan and Europe relative to the dollar in a managed way, had a positive effect in lowering our current account balance over time. Key government investments in the semiconductor industry and other technologies spurred their development and commercialization. President Reagan signed into law enhanced Buy America requirements for certain infrastructure projects to boost domestic employment. His Administration implemented the Market Oriented Sector Specific--or MOSS talks--with Japan that focused on market access with measurable results.

More recently, President Obama and Congress worked together to provide loans and the breathing space our domestic auto industry needed to rebuild, retool, and thrive. The effort wasn't perfect, but it was a necessary step to stabilize one of the support structures for domestic manufacturing employment and production. As important as that step was, it was an "Emergency Room" manufacturing strategy, and not a long-term effort to grow manufacturing jobs, capacity and output.

The case for a permanent capacity for strategic planning on our manufacturing base, evolving to make use of our workers' skills and the latest technology as well as responding to global trends, could not be stronger when one considers that no matter how innovative or competitive individual manufacturers may be, there are some problems they simply cannot solve on their own, as recently articulated by Jared Bernstein of the Center on Budget and Policy Priorities:

- Research and development can be expensive and hard to capture profits, such as in advanced batteries;

- No single firm could possibly coordinate national projects like the smart grid or internet;
- Firms often need assistance in applying academic innovations to the production process;
- Manufacturers often face barriers to accessing credit for entry, expansion, and innovation; and
- Manufacturers need assistance in exporting as well as push back against unfair trade practices.

Contrary to a widely held belief, manufacturing employment actually held steady from 1982 to 1999, hovering around 17.2 million jobs, with ebbs and flows in downturns and recoveries. There were a number of reasons for this stability, including more aggressive trade enforcement and currency policies in the 1980s and more domestic investment in the 1990s. But manufacturing employment has dropped precipitously since China entered the World Trade Organization in 2001 and our bilateral trade deficit has exploded. We have concluded that--outside of the collapse of the auto and housing markets in 2008--the single most detrimental factor to manufacturing employment in the United States has been the expansion of our one-sided trade relationship with China. China is certainly not our only competitor engaged in unfair, predatory and protectionist policies, but the scale of their activities swamps that of many of our other trading partners and is in need of immediate attention.

We need a robust manufacturing strategy because the fate of the industrial sector of our economy is too important to be left to a gaggle of competing and ultimately unsatisfying theories of why it is declining in real employment terms, as a share of world output and exports, and as a percentage of our GDP. The decline of manufacturing is not inevitable, desirable, nor can it be explained solely through theories of churning capitalism, advances in productivity and technology, high regulatory, tax, and compensation costs, or inefficiency.

For instance, Germany's global shares of manufacturing output and exports have held steady over the past decade, while America's have declined and China's have risen sharply. Yet, Germany is not a low-cost nation for manufacturing; average manufacturing wages in Germany are $48 an hour compared to $32 per hour in the United States. Germany has an integrated strategy for boosting manufacturing, focusing on skills, technology, investment, demand-side incentives, labor-business-government collaboration, and aggressive trade policies, which allow it to successfully compete. Germany is a world leader in advanced manufacturing and solar panel production because it wants to be, and all stakeholders work together to make it successful. How does Germany have balanced trade with China while the U.S. runs monthly China trade deficits of more than $20 billion? There are many possible reasons, but the principal explanation is because that particular metric matters to policymakers in Germany, while it doesn't seem to matter enough here in Washington, DC.

Support for a national manufacturing strategy is growing among serious economists, business leaders, as well as labor leaders. Andy Grove, the former CEO of Intel, wrote a BusinessWeek cover story on this very topic, and other executives have weighed in as well with books, speeches, and fresh ideas.

A national manufacturing strategy would give a significant boost to getting the government back on the side of America's manufacturing workers and those companies seeking to expand domestic production in the United States. What does American need to do to create more manufacturing jobs?

First, pass legislation to allow American workers and firms to seek relief from the effects of currency manipulation by China and other countries using our existing trade laws. Such legislation would provide our manufacturing sector with an effective tool to seek a level playing field, and it would also deter China from continuing this highly protectionist and mercantilist practice. We need this to happen now because, according to the Economic Policy Institute, if China appreciated the Yuan to a market-based level, over the next two years, America would see a significant boost in GDP (up to 1.9%), 2.25 million more jobs, and $71 billion annually in deficit reduction. This would have a much more far-reaching economic impact than even the rosiest scenarios imagined for the highly controversial free trade agreements with South Korea, Colombia, and Panama.

In addition, China's cheating on indigenous innovation, its web of industrial subsidies and state-owned enterprises, its rare earth minerals export restrictions, and its rampant intellectual property theft must all be aggressively confronted. Enforcing our trade laws more aggressively is key to not only restoring economic growth and our manufacturing sector, but also to restoration of public confidence and trust in their elected leaders that when they work hard and play by the rules, their government will stand up for their rights and interests. Congress has the power to self-initiate certain types of trade cases--it should use that power, rather than sit on the sidelines. When we deploy our trade laws, we achieve results: industries such as tires and oil country tubular goods have stabilized in states across the nation, including Pennsylvania and Texas.

Second, retool the Obama Administration's initiative to double exports--the National Export Initiative--to put the focus on reducing our manufactured goods deficit to zero. That's a far more accurate metric for success or failure in the manufacturing sector than increases in exports that may be offset by a flood of imports.

Third, resist the temptation to encourage the Federal Reserve to pursue a stronger dollar policy, which would put our exporters at a disadvantage with their European and Asian competitors and run counter to efforts to reduce damaging global imbalances.

Fourth, make positive tax changes targeted towards manufacturing such as enhancing the section 48(c) clean energy manufacturing tax credit, dramatically expanding support for industrial energy efficiency efforts, and maintaining accelerated depreciation for plant and equipment investments. The proposal contained in the Simpson-Bowles plan to cut the top marginal corporate tax rate, using various domestic manufacturing tax deductions as offsets, would impose an estimated $48 billion tax increase on manufacturers while producing a windfall for Wall Street, according to an Ernst & Young analysis. This makes absolutely no sense. The idea that a revenue-neutral corporate tax cut would be good for manufacturing is tenuous, at best. There appears to be little or no correlation between marginal tax rates and global competitiveness. A more significant factor is the presence of value added tax (VAT) systems with rebates for exports in virtually every industrialized and industrializing country except ours.

Fifth, while duplicative and unnecessary regulations should be reformed or eliminated, pursuing a race to the bottom with countries like China is foolhardy and ineffective as a means to boost our global competitiveness. A high-road strategy is the only feasible one for our nation. Advances in technology are making industries more sustainable, and ultimately, more competitive. The idea of rolling back decades of protections for workers and the environment is an exercise in futility, and time and resources would be better spent elsewhere. The goal should be for other nations to aspire to the quality of life that Americans enjoy, not to discard our efforts through a downward competitive spiral.

Sixth, investing in infrastructure is essential. The 2009 Recovery Act helped to accelerate infrastructure spending but that cycle has slowed and has not helped foster long-term demand. Expanding infrastructure investment and creating a national infrastructure bank that will ensure a long-term, sustained funding effort for restoring and updating our nation's infrastructure is key to that effort. We must ensure that, to the maximum extent practicable, public funding be coupled with adherence to Buy America requirements.

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This can provide important support to our manufacturing sector in a manner that is fully compliant with our international obligations.

Finally, enhance the skills and training infrastructure in the United States. Boosting skills and training for Americans who want to work with their hands as well as with their minds is absolutely critical. Our nation needs a comprehensive network of opportunities, beginning in high school, progressing through community colleges, and continuing into lifelong learning. We are encouraged by the *Skills for the Future* initiative supported by the Administration and advanced by a large number of manufacturing associations, companies, and community colleges.

The United States is falling behind the rest of the industrialized world in preparing our workforce for highly skilled careers in manufacturing. Our stakeholders work every day to provide skills and training to new and displaced workers, but they face long odds as blue-collar work has fallen out of fashion, and along with it the infrastructure to prepare Americans for manufacturing careers.

The *Skills for America's Future* partnership is a very promising initiative. To make it work, we will need better training opportunities in high school and, more than anything else, we will need to bust the myth that there is no future for a young man or woman in the factory. It's incumbent on all of us to break down the walls that students, parents, teachers, and counselors may have erected to considering careers in manufacturing. Manufacturing today is far different from the image projected by factories fifty years ago.

Today, a modern steel facility will have far more workers in air-conditioned rooms at computer terminals than those engaged in demanding physical activity. We need to do a better job of outreach and education, and we need the right set of policies to boost manufacturing in America so that we will continue to create opportunities for workers.

Chairman Casey, we have offered here a comprehensive plan of bold options for your consideration. The Alliance for American Manufacturing is ready to tackle these challenges with you, the President, leaders in Congress and others. Thank you for taking the time to examine the importance of manufacturing and to consider strategies to revitalize this important sector of our economy.

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