

Testimony

Of

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Chairman Rush, and members of the Committee, I am Mark Gordon, Director of Defense Programs at the National Center For Advanced Technologies and a member of the Executive Committee of the Manufacturing Division at the National Defense Industrial Association (NDIA). On behalf of my company and the 1704 corporate members of NDIA including 83,000 individual members, I'm pleased to appear before the House Subcommittee on Commerce, Trade, and Consumer Protection today to emphasize the importance of Manufacturing to our nation and to support HR 4692 in calling for a National Manufacturing Strategy.

Based upon your request to discuss topics of import in consideration of this Bill, I would like to address three issues:

- Is Manufacturing important to our country?
- Do we need a National Manufacturing Strategy?
- Are there modifications to the Bill which strengthen the process and strategy?

Is Manufacturing important to our country?

Yes, Manufacturing is of vital importance to our country, due to its enormous impact across all aspects of our nation, including economic, employment, and security. While manufacturing has been declining as a percent of our GDP since the 1950s, manufacturing still remains the largest productive sector in the overall US economy at 13%, and the U.S. produces more goods than any other country — \$1.6 trillion worth, according to the Federal Bureau of Economic Analysis. The most critical benefit of manufacturing is not simply the size of the sector,

but that manufacturing **CREATES** wealth within the US by producing something of higher value from materials or common components. It is not a service sector which simply transfers wealth between entities, it creates something of value. And unlike other wealth creating sectors, such as mining or agriculture, the jobs produced by manufacturing activities are generally high paying and represent an entry into the middle class for a large portion of the workforce. Manufacturing multiplies each dollar spent into an additional \$1.37 of economic activity, higher than any other sector.

Our National Security depends heavily upon our domestic manufacturing capabilities: the Defense Department relies upon the US defense industrial base to equip our warfighters; our national security is supported by our economic strength and viability, which in turn requires an industrial base that generates wealth based upon manufacturing goods. National security requires a manufacturing sector based on assured sources to safeguard our economy and national defense and to provide trusted sources of supply to meet the demands of our citizens and warfighters. For all these reasons and more, Manufacturing has and must continue to represent the foundation of a strong economy, and thus needs active support by Congress.

Do we need a National Manufacturing Strategy?

Yes. In a recent survey by the Manufacturing Institute and Deloitte, 81% of respondents believe that America's manufacturing base is either important or very important to their standard of living and to economic prosperity, and 77% think the U.S. needs a more strategic approach to the development of its manufacturing base.

The question of whether a national Manufacturing Strategy is needed is crucial, but also simple to answer: absolutely! There are many groups from government, industry, and academia which are chartered to further the domestic manufacturing agenda, but they are not strategic, senior, or sufficient enough to deliver the goal of H.R. 4692: a National Strategy for Manufacturing within the United States. Government bodies continue to work on policy, technology, and economic concerns for the domestic manufacturing industrial base, but they are supporting the implementation path of a strategy, not setting one. Industry groups like the NDIA Manufacturing Division, AMT, NCMS, and a host of others propose investment roadmaps, changes to regulations, incentives, and a level playing field for global competition. These are vital issues, but do not represent a comprehensive strategy. Academic teams investigate process improvements, supply chain and economic models, and propose R&D programs to advance the understanding of manufacturing. Again, furthering the body of manufacturing knowledge, but not with a strategic vision. None of these existing groups have the charter or sufficient stature to establish a National Manufacturing Strategy. An overarching strategy needs to be provided in order for these groups to be aligned, working cooperatively towards strategic goals, and most critically, to more efficiently deliver results by leveraging public/private investments within core priorities.

A Quadrennial Manufacturing Strategy, as proposed by HJ.R. 4692, could provide a stable, well planned national framework for aligning public-private-academic investment opportunities at the highest level. Private industry, which currently provides the majority of investment in manufacturing R&D and facilities, demands a long term, stable plan in order to make these investments. Thus, a National Manufacturing Strategy should be able to level the playing field for these types of investments, and increase both the amount of domestic investment and the leverage for public /private ventures. The existence of such a strategy could also lure greater corporate

investment domestically, as decision making in the boardroom is shifted in favor of clear, stable national priorities.

Above all else, Manufacturing requires a senior leader in the Administration, at a level sufficient to drive a national campaign advocating the government's strategy and implementation plans. It is hoped that the Chairman of the Manufacturing Strategy Task Force could serve in this role.

- Finally, I note that the President has recently set an ambitious goal of increasing the exports of the US by three times. Considering this goal, especially in the context of manufacturing being the largest export sector, it's quite obvious that a Manufacturing Strategy would be a major enabler of this effort. Of particular interest within the manufacturing strategy should be small businesses, since they represent more than 99 percent of all employers including 51 percent of private-sector workers, employ 40 percent of high tech workers, and make up 97.3 percent of all identified exporters.

In an excellent new paper by Dr. George Tassef, Senior Economist at (spell out) NIST, the multiple flaws in applying neoclassical economic theory to the high tech industry are exposed, with a strong call to change the current government policies, (or lack thereof) towards R&D. Current economics apply the Law of Comparable Advantage, combined with a Schumpeterian-type reaction to assume that new technologies will magically and reliably appear from advances in basic science and drive re-allocation of labor and capital into higher-tech, higher-productivity industries. One problem with this theory is the relative small size of the high tech, R&D sector for manufacturing vice the large size of the off-shored manufacturing sector. Another problem is that the global system is increasingly absorbing the output of US-based research, well before providing the gains

domestically. This paper concludes by recommending three strategic policy objectives: 1) Increase manufacturing R&D intensities; 2) Adjust manufacturing R&D to emphasize long term growth and competition; and 3) Improve the efficiency of manufacturing R&D through public / private technology clusters. These objectives are even more crucial when considering the fact that 70% of industrial R&D is funded by manufacturing firms, which only accounts for 13% of GDP. Each of these objectives could be part of a National Manufacturing Strategy, but would only be actionable and valuable in the context of an overall strategy.

Are there modifications to the Bill which strengthen the process and strategy?

Yes. The overall content of the Bill is excellent and calls for the comprehensive analysis of many complex issues. However, I will observe that during the markup of HR 4692, some modifications can be made to strengthen the purpose, process, and eventual strategy.

First and foremost is the relationship between the President, Task Force and advisory bodies. I would propose that instead of the Manufacturing Strategy Task Force making recommendations to the President for incorporation into the strategy (Section 3, c, 5), the Task Force be made responsible for submitting a draft strategy to the President. I also believe that the President's Manufacturing Strategy Board be tasked with informing the Task Force on key issues, and then making recommendations to the President regarding the draft strategy from the Task Force (Section 3, e). Finally, it appears that in Section 3 (a & b) that the President is responsible for conducting a multitude of comprehensive analyses prior to developing the National Manufacturing Strategy. I

believe that it should be the role of the Task Force to conduct these comprehensive analyses, which will influence the development of the draft strategy.

As an aside, I believe that the Task Force should include representatives from both Homeland Security and the National Science Foundation.

Further, I would suggest that the Section 3, b (1-23) be changed to require “comprehensive analysis of any factors affecting the manufacturing competitiveness, growth, stability and sustainability, and may consider issues such as the following:” followed by sub-sections 1-22. This modification would allow the President and the Task Force the latitude to define and prioritize the scope of the comprehensive analyses, without forcing the massive duplication of effective studies already available. Without this change, I am afraid that the time span for these 22+ comprehensive analyses may last longer than the Presidential term.

I strongly endorse the General Accountability Office (GAO) review of the effectiveness of the strategy (Section 4) and the National Research Council Quadrennial Report (Section 6,a) as necessary for the development and assessment of the strategy, but the additional studies specified in Section 6, c are extraneous and not necessary for establishment of the strategy.

Another modification that may be necessary is a change in the timing of the Strategy for release in February of the President’s second year. If all the activities required by by H.R 4692, including public meetings, 90 day notifications, recommendation review and response, analysis, strategy development and the stand up of the Manufacturing Strategy Task Force were to be totaled, it appears that the final report may not be available before the start of the President’s third year, which

also corresponds to a new Congress. I urge the Subcommittee to consider a longer schedule for delivery that takes into account the initial stand-up period of the President's cabinet and advisors.

NDIA and its members strongly endorse HR 4692, requiring the President to conduct a quadrennial National Manufacturing Strategy, with particular emphasis on:

- Allowing flexibility for the Manufacturing Strategy Task Force to conduct its own comprehensive analyses of those considerations deemed vital by its members and the President.
- Setting clear roles for Task Force and Strategy Board, which requires the Manufacturing Strategy Task Force to submit a draft strategy to the President and the President's Manufacturing Strategy Board to assess the draft strategy and make recommendations to the President.
- Establishing goals and recommendations (Section 3,d) as part of the Manufacturing Strategy which focus on Federal manufacturing programs which effect the Nation's Manufacturing Sector, and not simply goals for the sector itself.

Chairman Rush and Members of Subcommittee, I'm honored to have had this opportunity to provide you an industry perspective on the critical nature of Manufacturing to our nation, and hope that you embrace the opportunity to strengthen our country's ability to compete in the global economy by supporting this Bill.