

Testimony of Owen E. Herrnstadt, Director of Trade and Globalization  
International Association of Machinists and Aerospace Workers  
before the  
Subcommittee on Commerce, Trade and Consumer Protection  
“Hearing on the National Manufacturing Strategy Act of 2010”  
July 14, 2010

The International Association of Machinists and Aerospace Workers, (IAM) AFL-CIO, represents several hundred thousand active and retired members throughout North America. Our members work in a variety of manufacturing industries including aerospace, electronics, defense, shipbuilding, transportation, and woodworking. Given the nature of these industries and the IAM's membership, the IAM truly understands the importance of manufacturing to our nation's economic and physical security. We believe that a strong domestic industrial base is one of the essential elements needed to restore our economy and build a prosperous and sustainable future. Accordingly, we welcome the opportunity to appear before you today to share with you our views on legislative efforts seeking to establish a national manufacturing strategy.

U.S. manufacturing serves as the bedrock for our nation's economy. According to the Economic Policy Institute (EPI), “manufacturing employs one-tenth of all U.S. workers and is responsible for over 12% of our nation's total growth domestic product”.<sup>1</sup> EPI also notes, “For non-college educated workers manufacturing is a crucial source of good, often highly skilled jobs at above average wages”.<sup>2</sup> Investment in manufacturing research and development has contributed significantly to new industries and innovations that have employed generations of U.S. workers.

Support for domestic manufacturing is essential both to restore our nation's economic health and to preserving our national security. Without strong and robust manufacturing and defense industries, our nation becomes more vulnerable to present and future dangers. As jobs and the skills needed to perform them disappear and as our defense production capacity is reduced, we will become less able to defend ourselves should the need arise. Moreover, as suppliers spread around the globe, access to crucial parts and components may become limited.

It is no secret that U.S. workers and their communities are in a crisis. Over 8.5 million jobs have been lost since December 2007, and the unemployment rate remains above 9 percent. If all of those who are unemployed but have become too discouraged to look for work are included, the unemployment rate is in the double-digits. According to EPI, 15 million people are officially unemployed while another 11 million are involuntarily working part-time or have dropped out of the labor force.

Despite the importance of manufacturing to our nation's economy and defense capacity, millions of U.S. manufacturing workers have lost their jobs, contributing to our high unemployment. The Bureau of Labor Statistics reports that manufacturing employment has declined by over 5.5 million jobs since the year 2000. Some industries that were once great contributors to our economy, like

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<sup>1</sup> *Manufacturing*, Agenda for Shared Prosperity, Economic Policy Institute; Robert Scott, *The Importance of Manufacturing: Key to recovery in the states and the nation*, EPI Briefing paper, 2/13/2008.

<sup>2</sup> *Id.*

auto, shipbuilding and machine tools, are barely shadows of what they once were.<sup>3</sup> Jobs in other leading edge industries like aerospace are being outsourced to other countries. The production of the Boeing 787 involves suppliers in Japan, Italy and other countries.<sup>4</sup> Renewable energy products that are considered to represent the future of manufacturing also are, to a great extent, manufactured abroad.

While there are many reasons for the decline in manufacturing, one of the fundamental reasons is that the U.S. does not have a national manufacturing strategy and has not established a framework for creating one. A national manufacturing strategy could establish general and specific programs for coordinating related policies as well. Policies related to tax and investment, research and development, trade, employment, currency valuation, export initiatives, domestic procurement, and others must be integrated to produce a cohesive and effective strategy to restore our manufacturing sector and ensure the growth of jobs with good wages.

Other countries have embraced manufacturing strategies. A few years ago, the European Commission presented its new industrial policy noting, "A flourishing manufacturing industry is key to fully exploiting the European Union's potential for growth and sustaining its economic and technological leadership."<sup>5</sup> Separately, over 20 European countries have adopted sophisticated offset policies.<sup>6</sup> Offsets occur when one country demands a transfer of technology and/or production in return for a sale. As explained by one of the federal agencies that reviewed U.S. aircraft manufacturers and suppliers:

*Major manufacturers develop agreements with foreign suppliers to produce major segments of their aircraft in exchange for large aircraft orders from the country's carriers. These agreements can amount to billions of dollars in sales for the manufacturer. For example, in order for Boeing to sell Boeing 747s to Air China, at least part of the final product (no matter how small) must be manufactured or assembled in China.<sup>7</sup>*

Countries like Germany have sophisticated manufacturing policies that have helped the country weather the current economic crisis. China's industrial and manufacturing policies are credited with that country's economic growth. As the U.S.-China Economic and Security Review Commission reported, "China's industrial policy targets and supports strategic industries identified as important to its economy in the 11<sup>th</sup> Five-Year Plan".<sup>8</sup> The Commission annually reports on industrial policies implemented by China focusing on specific industries including renewable energy, automobiles and auto parts, steel, aerospace, communications, computing and software industries.

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<sup>3</sup> See, *Manufacturing A Better Future For America*, Ed. Richard McCormack, Alliance for American Manufacturing, 2009.

<sup>4</sup> See, *Boeing 787 delays cast hard light on outsourcing*, Reuters, 9/22/2009.

<sup>5</sup> Communication from the Commission, 10/5/2005;

[http://europa.eu/legislation\\_summaries/enterprise/industry/n26109\\_en.htm](http://europa.eu/legislation_summaries/enterprise/industry/n26109_en.htm) (extracted 7/12/2010).

<sup>6</sup> For further discussion on offsets, see Herrstadt, *Offsets and the Lack of a Comprehensive U.S. Policy*, Economic Policy Institute, 04/17/2008.

<sup>7</sup> FAA, *Assessment of FAA's Risk-Based System Overseeing Aircraft Manufacturers' Suppliers*, Report Number: AV-2008-026; issued February 26, 2008 at pg. 2.

<sup>8</sup> 2009 Report to Congress of the U.S.-China Economic and Security Review Commission.

In comparison to the European Commission, and countries like Germany and China, the U.S. has no national manufacturing policy and no mechanism for developing one. We simply cannot be complacent and hope that manufacturing is cyclical and will recover with the passage of time. The changes we are witnessing in the sector are structural and retaining a robust manufacturing industry and the good jobs that go with it requires a direct and structural response from Congress.

H.R. 4692, the National Manufacturing Strategy Act of 2010, requires the President to prepare a quadrennial national manufacturing strategy represents a key step forward in developing this response. Among other things, the bill proposes the creation of a manufacturing strategy taskforce that would review and make recommendations to the President on domestic sourcing and government policies. H.R. 4692 is intended to assist the manufacturing sector in reviewing and building coordination between government agencies to integrate federal policies that affect manufacturing and the manufacturing related workforce. In addition, the bill would create a Presidential manufacturing strategy board consisting of representatives from labor, industry, and academia. The strategy board would provide information and recommendations on the needs of the nation's manufacturing sector to the President.

The International Association of Machinists has proposed the creation of a permanent President's Council on Manufacturing Policy to provide Congress and the President with recommendations for restoring and growing the domestic manufacturing industry and creating high-quality domestic manufacturing jobs.<sup>9</sup> We fully support the National Manufacturing Strategy Act of 2010, and its proposal to create an advisory body on the manufacturing industry. In particular, we support the breadth of the responsibilities assigned to the task force and the private sector board in the legislation.

While we are supportive of the bill, we do have some recommendations to strengthen it, including:

- Under the current proposal, none of the chairs of the advisory committees that will co-chair the private sector board represent labor. In order to ensure the balance of the board, a representative from labor should also be designated as a co-chair.
- The State Department, United States Trade Representative, and U.S. Export-Import Bank should be added to the Manufacturing Strategy Task Force, so that all relevant government agencies are included in the task force's deliberations.
- Given that the proposal states that the President's Manufacturing Strategy Board will be appointed "after consultations with industrial organizations," it is essential that the definition of industrial organizations extend to labor unions representing workers in the manufacturing industry. Excluding labor representatives from this consultative role would deprive the Administration of labor's expertise in these matters.

The IAM supports the National Manufacturing Strategy Act of 2010 as one component for creating a manufacturing strategy. However, we also believe that more steps are urgently needed to support the creation of manufacturing jobs. These and other additional steps are key, including :

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<sup>9</sup> See, Owen Herrstadt, *Green jobs, with strings attached*, Economic Policy Institute, 12/2/2009.

- Adjust currency valuations for countries like China,
- Fair trade agreements,
- Efforts to curtail offsets and other forms of outsourcing to other countries, and
- Mechanisms to create a flow of credit for manufacturers.

In addition, employment impact statements should be incorporated into a variety of government programs. Congress and the Administration should adopt a simple, common sense policy that links certain government activities to their effect on U.S. employment. One way to accomplish this is to require detailed employment impact statements as part of the decision-making process for government procurement contracts, assistance, grants, or awards.<sup>10</sup>

Domestic sourcing requirements should also be closely examined to make certain that they are interpreted and implemented in a manner that provides the greatest domestic employment opportunities as possible.<sup>11</sup> Domestic content requirements should be based on a simple and common sense review of domestic manufacturing costs, which include direct costs like materials and production. Intangible and indirect costs like those attributed to marketing or intellectual property rights should be excluded. Furthermore, the methods used to calculate domestic content should be transparent and uniform throughout government.

Manufacturing workers are in a crisis. They have witnessed millions of their jobs disappear over the past few years. Their pain is real. As their desperation increases and their hope fades, it is critical that we develop a comprehensive national manufacturing strategy that will make a difference in their lives and, in doing so, ensure a vibrant and sustainable economy.

Thank you for the opportunity to share our views with you today. I would be happy to take any questions.

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<sup>10</sup> Id.

<sup>11</sup> Id.