

**TESTIMONY OF
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BEFORE THE
SUBCOMMITTEE ON COMMERCE, TRADE AND CONSUMER PROTECTION
COMMITTEE ON ENERGY AND COMMERCE
UNITED STATES HOUSE OF REPRESENTATIVES
HEARING ON
“H.R. 4692, THE NATIONAL MANUFACTURING STRATEGY ACT”
JULY 14, 2010**

Mr. Chairman and members of the Subcommittee, I want to thank you for taking the time to examine the National Manufacturing Strategy Act 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 for one goal: strengthening American manufacturing and therefore our nation’s economic and national security. Our mission is to provide policymakers like you with useful analysis of the issues, as well as innovative policy ideas to move us toward effective solutions.

We commend Representative Dan Lipinski for his authorship of H.R. 4692, the National Manufacturing Strategy Act, and respectfully urge you to pass it into law. There is no question that America needs a manufacturing strategy to revitalize the sector that drives the rest of the economy. As there is no “Department of Manufacturing,” it makes perfect

sense to harness the best minds, as well as to coordinate among the appropriate agencies, to focus on a government-wide strategy to advance manufacturing in both employment and output terms. Like most issues that come before you every day, there is no simple solution to strengthening the manufacturing sector, but passage of H.R. 4692 would complement ongoing and anticipated efforts that I will detail later in my testimony.

The idea of a manufacturing strategy is hardly a radical concept. 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 such as a strong dollar policy favoring domestic consumption 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 trade deficit. 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.

Most recently, the Obama Administration released its “Framework for Revitalizing American Manufacturing” in December of last year. The document recognizes the importance of manufacturing to America’s economic future and lays out a path forward on a number of important issues, including access to credit, skills and training, creating new markets for manufacturing, and improving the efficiency of the industry. But the plan has yet to be implemented, and it was not designed to be a strategic planning document.

The case for a permanent capacity for strategic planning on our manufacturing base, evolving and innovating to make use of our workers’ skills and the latest technology as well as to respond to global trends, could not be stronger when one examines key facts about manufacturing:

- **More R&D.** American manufacturers are responsible for 70% of research and development investment in the United States; nearly 90 percent of all patents filed come from the manufacturing sector.
- **More Technology.** American manufacturers are the leading buyers of new technology in the United States.
- **More Jobs.** American manufacturing directly employs nearly 12 million Americans and creates 8 million additional jobs in other sectors.

- **More Growth.** American manufacturing has a higher multiplier effect and pays better wages (22% on average) than other sectors of the economy.
- **Still significant.** Manufacturing is the largest sector of economy in 10 states and represents 12% of our Gross Domestic Product.
- **Powers Exports.** Manufactured goods represent 60% of U.S. exports.
- **Productivity.** Manufacturing productivity exceeds rest of private sector by 60%.
- **Number Nine.** U.S. manufacturing would be the 9th largest economy in the world.

While those are significant—and to many Americans surprising—achievements, the challenges that face manufacturing are even more shocking:

- 5.5 million manufacturing jobs have been eliminated since 2000; that represents one-third of all manufacturing jobs.
- While the U.S. economy expanded 17% from 2002-2007; manufacturing expanded only 5%.
- 50,000 manufacturing facilities have closed over last ten years.
- Industrial production dropped last decade—it had risen every decade before that, even during the Great Depression.
- The trade deficit in manufacturing goods has quadrupled since 1997.
- We already have growing high technology and green technology trade deficits.

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.

Other explanations for manufacturing's decline, while conforming to orthodox economic views, are not satisfying. The decline of manufacturing employment and manufacturing's share of GDP is not inevitable, desirable, nor can it be explained solely through theories of churning capitalism, advances in productivity and technology, 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. But, Germany has an integrated strategy for boosting manufacturing, focusing on skills, technology, investment, labor-business-government collaboration, and aggressive trade policies, which allow it to successfully compete.

The final reason why I believe America needs a national manufacturing strategy is quite simply this: it is what your constituents want. A new bipartisan poll conducted by Mark

Mellman and Whit Ayres shows that going into the 2010 election cycle, both Democrats and Republicans face a deeply unhappy electorate who are unified in their concern over the loss of American manufacturing jobs and the lack of work being done on the issue by Congress. When asked about prospective economic solutions, pro-manufacturing policies won overwhelming support across demographics including non-union households, independents, union households and Tea Party supporters. The responses in the poll echo a June 21, 2010 article in the Financial Times, which quotes a projection that in 2011 the United States will lose its status as top nation in factory production to China, “thus ending a 110 year run as the number one country.”

In the poll of 1000 likely general election voters, “We have lost too many manufacturing jobs” is the top concern among independents and working class voters, even compared to government debt, loss of life in Iraq and Afghanistan, the high cost of health care, illegal immigration or terrorism. I will highlight some key findings:

- A majority believe the U.S. no longer has the world’s strongest economy—a title they want to regain.
- 86% of voters want Washington to focus on manufacturing, and 63% feel working people who make things are being forgotten while Wall Street and banks get bailouts.
- Support for a national manufacturing strategy is overwhelming: 78% of voters across all demographics support such a strategy.

- Two-thirds of voters believe manufacturing is central to our economic strength, and 57% believe manufacturing is more central to our economic strength than high-tech, knowledge or financial service sectors.
- Across all demographics, voters' economic solutions center on trade enforcement, clean energy, tax credits for U.S. manufacturing and replacing aging infrastructure using American materials, a surprising overlap between Tea Party supporters, independents, non-union households and union households.

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 in its July 5 issue. Leaders of Fortune 500 companies such as Bill Ford of Ford Motor Company and Dan DiMicco of Nucor have argued that manufacturing should be boosted to 20 percent of our Gross Domestic Product. Jeff Immelt of General Electric has acknowledged that his company—and America—have simply outsourced too much production and should refocus on making things here again.

We believe that passage of H.R. 4692 would give a significant boost to getting the government back on the side of America's manufacturing workers and companies; we also believe that concrete steps could be taken right now to create manufacturing jobs.

The Federal Reserve, Department of the Treasury and other public entities must take aggressive steps to open up avenues for funding at rates that will help increase

investments in plant, equipment and people. In addition, specific support should be given to ensure that we are able to address the goal of energy independence by expanding funding for programs that will accelerate development of the manufacturing of alternative and renewable energy production equipment and components. Rapidly expanding funding for Section 48(c), dramatically expanding support for industrial energy efficiency efforts and other programs and policies directed at the similar goals are key steps in that effort.

The first cycle of stimulus funding helped to accelerate infrastructure spending but that cycle is slowing and has not helped foster long-term demand. Long-term demand requires more sustained spending and must be coupled with policies that ensure that our funds are focused on promoting use of domestic supply chains. Expanding infrastructure spending 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. And, as part of this effort, we must ensure that, to the maximum extent practicable, public funding be coupled with adherence to Buy America requirements. This can provide important support to our manufacturing sector while also complying with our international obligations.

Many of our key competitors have continued their protectionist and predatory approaches to promote their own economic interests at the expense of others. We must focus our trade policies on achieving real results that not only open markets to our products, but that also ensure that unfair trade is not allowed to continue to decimate our economy.

Congress must act to address currency manipulation by China and other countries. Not only must it do this on a country-to-country basis, but must also ensure that industries be able to utilize our trade laws to respond to currency manipulation when our government refuses to act. In addition, efforts like China's indigenous innovation effort must be aggressively confronted. Enforcing our 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, that their government will stand up for their rights and interests.

America has the best and most innovative workers. But the challenges of a global marketplace require that skills and training be constantly upgraded. In conjunction with enhancing access to capital, increasing demand and taking other steps to revitalize our manufacturing sector, we must make investments in our people to ensure that they are equipped to meet the ever increasing demand for talented workers. Congress should examine ways to increase access to training funds for people who are out of work as well as those seeking to enhance their skills.

Mr. Chairman, we look forward to working with you and members of the subcommittee on strategies to revitalize this important sector of our economy.