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THE STATE OF U.S. INDUSTRY

HEARING

BEFORE THE

COMMITTEE ON ENERGY AND COMMERCE
HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTH CONGRESS

SECOND SESSION

MARCH 24, 2004

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THE STATE OF U.S. INDUSTRY

WEDNESDAY, MARCH 24, 2004

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ENERGY AND COMMERCE,
Washington, DC.

The committee met, pursuant to notice, at 10 a.m., in room 2123, Rayburn House Office Building, Hon. Joe Barton (chairman) presiding.

Members present: Representatives Barton, Hall, Bilirakis, Upton, Stearns, Greenwood, Cox, Deal, Whitfield, Norwood, Shimkus, Wilson, Shadegg, Pickering, Buyer, Bass, Pitts, Bono, Walden, Terry, Ferguson, Rogers, Issa, Otter, Sullivan, Dingell, Markey, Pallone, Brown, Gordon, Rush, Stupak, Engel, Green, McCarthy, Strickland, DeGette, Capps, Doyle, Allen, Davis, Schakowsky, and Solis.

Staff present: Bud Albright, staff director; David L. Cavicke, majority counsel; Shannon Jacquot, majority counsel; Andy Black, legislative director and senior policy coordinator; Brian McCullough, majority professional staff; William Carty, legislative clerk; Jonathan J. Cordone, minority counsel; Ashley Groesbeck, minority staff assistant; and Jessica McNiece, minority staff assistant.

Chairman BARTON. The committee will come to order.

I have the privilege today of introducing the Honorable Don Evans. Before I formally introduce him, I have a personal privilege announcement.

Our former chairman, Chairman Billy Tauzin, did have surgery last week. He is still in the hospital. The surgery went extremely well. He is expected home sometime this week. The staff and his wife have asked that he not have visitors yet, but he is expected later in the week to be able to have visitors.

I would also like to announce that, because we do have the Secretary of Commerce today, I am going to ask that other than the chairman and the ranking member of the full committee that we try to limit our opening statements, so that we can have as much time as possible for the Secretary to make his statement and to answer questions.

There are 57 members of the committee, and if everyone takes their full 3 minutes it—we are going to have 2 hours of opening statements. Those who don't make an opening statement do get an additional 3 minutes in the question time. So I wanted to make that announcement.

Secretary Evans is the cabinet secretary that is charged with promoting trade and industry for the United States' companies and workers. The department that he chairs has the responsibility for a vast array of Federal programs, including those relating to tele-

communications technology, economic statistics, trade promotion, weather, oceanographic services. With the exception of oceanographic services and the weather, this committee has jurisdiction over all of the programs at the Department of Commerce.

As you all know, I think it is useful for us to bring the cabinet secretaries of the agencies under our jurisdiction before the full committee. Last week we had the Secretary of Health and Human Services, the Honorable Mr. Thompson. In the next 2 weeks, we are going to have the Secretary of Energy, the Honorable Spence Abraham. So having the Secretary of Commerce here today is the second in those cabinet secretaries.

We think that this is the first time the Secretary of Commerce has appeared before this committee, and maybe any committee in the House in the last 8 years. We are trying to confirm that, but Don Evans is not a gentleman who likes the—who seeks the spotlight and the limelight. So we are honored that he agreed to our invitation today.

We all know that our economy has had some rough spots in the last several years. The terrorist attacks on September 11, 2001, sent an economic shock through our Nation that we are still recovering from. Secretary Evans has taken that task as Secretary of Commerce seriously to try to help the economy rebound, and he is going to give us some statistics today and some facts and figures and his opinions as to why we think that we are now rebounding.

The third quarter of 2003 our economy grew at an astonishing rate of over 8 percent, 8.2 percent. That is the strongest economic growth rate in over 20 years. That economic growth has shown that our economy is continuing to grow. In fact, our economic growth rate has outstripped all of the industrialized countries. We have inflation now at historically low levels, and home ownership in the United States is at the highest level it has ever been.

Americans are living longer, and they are living healthier. This committee can take pride in the fact that we have just passed a component of that—the Medicare Reform Act that we are now in the process of implementing, and that the Secretary of Health and Human Services talked about several weeks ago.

Secretary Evans and this committee is committed to a job growth economy for America. He will report in his testimony that a quarter of a million new jobs have been created in the past 5 months alone. American employment rates are substantially higher than our Western trading partners. The February unemployment rate in this country at 5.6 percent is below its 30-year average, and is still trending downward.

And, of course, we all hope that it continues to trend downward. Still, more job growth and more employment is a key goal of the Congress, this committee, and the administration.

We also have extremely high productivity growth rates. We had a productivity growth rate I think last year of over 4 percent, which is simply amazing because the historical average in the post World War II period has been somewhere between 1 and 2 percent.

The Department of Commerce has recently released a report entitled "Manufacturing in America." In that report, the Secretary makes a number of recommendations that would, if implemented, promote even more growth in employment for the U.S. economy,

particularly in the manufacturing sector. The Secretary is going to talk about that in his prepared remarks.

It also points out that we need to pass the conference report in the Senate, that this committee did such good work on. It would be helpful if we would get the Senate to pass the Tort Reform Act, that, again, has passed the House of Representatives. And it would be very helpful if we could find a way to control some of our health costs that have gone up in the last several years.

This committee, Mr. Secretary, is working hard to achieve the goals that I have just outlined. I know that you share those goals, because you and I have talked about it, and we look forward to your testimony.

Finally, I want to inform the committee that Secretary Evans is here until approximately 12:30, so we want to take every opportunity to give him a chance to have interaction with the committee.

So with that, I would like to recognize the ranking member of the committee and former chairman of this committee, one of the most distinguished members of the House of Representatives, the Honorable John Dingell of Michigan, for an opening statement.

Mr. DINGELL. Mr. Chairman, I thank you, and I thank you for holding the hearing.

Mr. Secretary, welcome. You are a distinguished public servant and a friend, and I am delighted to see you here before us. We have a difficult problem in this country with regard to making the economy go, and I believe the discussion that we will have today will be helpful in that, and that your comments to the committee will be of value to us in this matter.

Since January 2001, my State of Michigan has lost over 128,000 manufacturing jobs. That is a staggering number, but it is just a portion of 2.8 million manufacturing jobs that have been lost across this country. This is a serious matter, because people are told that there is a recovery going on, but nobody seems to be going back to work.

Unfortunately, we are not addressing these matters. We are having a debate about esoteric trade theories from years gone by. And it is regretful that the statistics that have been coming out of the administration have not reflected the facts, nor have they been properly predictive of the events which would follow.

It is also an unfortunate event that the administration has not really shown that it appears to be concerned with the needs of the Nation at this particular time. We hear from the chairman of the Council of Economic Advisors that exporting jobs or outsourcing is a normal part of the process. We hear that the administration is proposing to change a situation where manufacturing will now include turning hamburgers in McDonald's and Wendy's.

We are talking now ofttimes nationally about outsourcing. That is one of the first questions, but that is really just exporting jobs. It used to be only that manufacturing jobs were at risk; now it is white collar. And we note that accounting and other jobs of this kind, including government jobs, for example, from the Tennessee Valley Authority, which is now suggesting that they intend to do this, is at hand. This is an outrageous situation.

Second, small- and mid-sized manufacturers, who are an essential and integral part of the American economy, need to have the

assistance that they have to have to compete on the world stage. Most of these are businesses that contribute to real job production and are very important parts of the automobile manufacturing process.

We should be manufacturing—rather, we should be expanding programs in the Department of Commerce, such as the Manufacturing Extension Partnership and the Advanced Technology Program, but these programs have been cut continuously in the budget of this administration—a most regrettable thing.

Third, American businesses and American workers deserve a government that pursues not just a policy of free trade but one which involves a policy of fair trade. In other words, our trading partners must be compelled to play by decent rules. Labor and working conditions must be brought up to intelligent and reasonable standards.

Environmental practices and laws must be made to work, so that we do not degrade the environment around the world, but also so that the United States does not subsidize misbehavior by allowing other countries to disregard important things which we do to see to it that the quality of life in the United States is proper and good.

The fourth point is the cost of health care is now out of control—$1,400 it is in the cost of an automobile, more than the value of steel. Nothing do I hear addressed by the administration in this matter.

Now, I think, Mr. Secretary, that you are concerned about these matters. They deserve a frank and an honest discussion. I think that we have not really begun to focus on that, and I hope that this meeting this morning will begin to move us in the direction of achieving that kind of national purpose that meets our needs through an intelligent discussion, and I look forward to having a colloquy with you on this, Mr. Secretary. And thank you again for your presence.

Chairman BARTON. We thank the gentleman from Michigan for that opening statement. I want to encourage members again, now that Mr. Dingell and I have given an overview, to not ask—to not give an opening statement, but the rules do allow for it.

I would ask if anybody on the Republican side at this time wishes to make an opening statement. All right. Does anybody on the Democrat side wish to make an opening statement? Okay. We will go to Mr. Pallone. Mr. Pallone is recognized for 3 minutes.

Mr. PALLONE. Thank you. Mr. Chairman, I want to thank the Commerce Secretary for coming to the Hill today to address the state of our Nation's economy, and I am hoping that he will be as honest with us as he was last month when he refused to support his own administration's lofty job creation numbers.

After seeing the job creation numbers for February—an anemic 21,000 jobs—I am hoping that finally today we can discuss economic policies that will finally create American jobs. If we can take anything from the February job numbers, it is that the economic policies of President Bush and the Republican Congress still are not creating jobs.

The President continues to say that the best way to create more jobs in the upcoming months is for Congress to make permanent all his tax cuts—tax cuts that overwhelmingly benefit our Nation's

wealthiest Americans. But when is the President going to learn? Congressional Republicans cut taxes year after year, and the jobs they predicted would be created have never become a reality.

Last year when the President was touting another round of tax cuts benefiting our Nation's wealthiest elite, the White House predicted the cuts would create more than 2.1 million new jobs in the 7 months after its passage. But what actually happened during that period? Only 296,000 jobs were created—1.8 million short of the President's predictions.

Perhaps that is why Secretary Evans refused to endorse President Bush's own economic report of the President, in which the administration predicted that 2.6 million jobs would be created this year. And I would be interested to hear from your administrations the latest estimates.

One of the major reasons for the current jobs recession is the increased exporting of high-paying white and blue collar jobs overseas. Consider several examples from the township of Edison in my congressional district. Last month, the Ford plant closed, leaving more than 900 New Jersey employees without jobs. Last year, the Frigidaire Air Conditioning plant closed its Edison plant and shifted production to Brazil, leaving 1,600 unemployed.

Mr. Secretary, I would think you would be concerned—and I am sure you are—about shipping these New Jersey jobs overseas. Last month, however, we learned that the Bush administration views the movement of American factory jobs and white collar work to other countries as a positive transformation that will, in the end, enrich our economy.

No wonder the President thinks our Nation's economic forecast is rosy. He isn't concerned about creating jobs here in the U.S., as long as the economy continues to grow. And if that can happen best by sending more jobs overseas, that is fine with him. It is time the Bush administration realized that shipping jobs overseas and cutting taxes for the wealthiest elite in our country will not create jobs.

President Bush and congressional Republicans have had 3 years to turn this jobs recession around. They have completely failed. And I am just hopeful that today we will finally hear a change of course from the Bush administration, although I have to say, Mr. Chairman, I am certainly not holding my breath.

Thank you, Mr. Chairman.

Chairman BARTON. Thank you.

Mr. Strickland, do you wish to make an opening statement?

Mr. STRICKLAND. Yes. Thank you, Mr. Chairman.

Chairman BARTON. Wait a minute. Mr. Brown, too, ahead of you. He is senior. The gentleman from Ohio is recognized.

Mr. STRICKLAND. I will defer to my Ohio colleague.

Chairman BARTON. Yes, Mr. Brown of Ohio is recognized for 3 minutes.

Mr. BROWN. Mr. Chairman, thank you for having this hearing.

Secretary Evans, thank you for being here. We know the numbers. One in six manufacturing jobs in my State has been lost since President Bush took office, 168,000 manufacturing jobs in my State have been lost, 300,000 Ohioans are unemployed today. That is 2,000 people have lost their jobs every week of the Bush adminis-

tration; 260 people have lost their jobs every day since George Bush took office in Ohio alone.

What puzzles Ohioans is that the Bush administration actually seems to be hurting, not helping, American manufacturing and working Americans, in large part because the President's answer to every bad case and bad piece of economic news is the same: more tax cuts for the wealthiest Americans with the hope that some of those benefits will trickle down and create jobs and help someone else, and more trade agreements that hemorrhage jobs that ship jobs overseas.

I would hope today, Mr. Secretary, that we could hear from you some words of support for the Crane-Rangel bill legislation that actually rewards American manufacturing for keeping—American manufacturers for keeping their jobs in this State. So many Republican members have co-sponsored this bill. It is the White House and Republican leadership that have refused to allow the Crane-Rangel bill to come to the House floor.

I got a letter yesterday from a man named David Grumbose, who lost his steel industry job midway through the Bush administration. He has had decades of factory experience, skills that include a degree in computer management. He has been out of work for 1½ years. He has long since exhausted his unemployment benefits.

He writes, "It isn't easy on the unemployment line. Hope is waning, and despair is close to setting in. I have almost given up, but that is not my nature. I have worked hard all my life. I started at age 13 delivering newspapers at 4 a.m. I really don't know what to do next."

Mr. Chairman, I have a stack of letters from others in my district saying essentially the same thing, frustrated that they can't find jobs, angry that their unemployment benefits have not been extended. Some 900,000 Americans are in that position. I would like to ask unanimous consent, Mr. Chairman, to enter these into the record if I could.

Chairman BARTON. Excuse me. Could you repeat the question?

Mr. BROWN. I would like to ask unanimous consent to enter these letters into the record, Mr. Chairman.

Chairman BARTON. Do we know what—have the majority staff——

Mr. BROWN. I just described what they were.

Chairman BARTON. [continuing] seen the letters?

Mr. BROWN. I don't know if they are simply——

Chairman BARTON. If you will let us look at them, I am sure that during the hearing we will——

Mr. BROWN. Okay. I appreciate that.

Chairman BARTON. [continuing] do that.

Mr. BROWN. Mr. Chairman, Mr. Grumbose and the 2.8 million other Americans like him deserve better from this administration and from this Congress. But we had better hurry up. During the time I have been talking, three more American manufacturing jobs have disappeared.

I yield back my time.

[The letters follow:]

David Grumbos
5613 Eastman Drive
Lorain, Ohio 44052
March 22, 2004

Congressman Sherrod Brown,

My name is David Grumbos, and I lost my job at Republic Technologies, Lorain, August 16, 2002 and have not been able to find a job since that time.
I have collected unemployment benefits for one year and have since run out of benefits with no extension.

I have been job hunting since the day I was laid off - to no avail. I have filled out numerous applications and given out resumes like candy - with no results. I feel that I have been discriminated against due to the applications that ask for my date of birth (8-16-52) and that once they see how long I have worked and for whom - (steelworker for 28 years) - they have no interest.

I have an Associates Degree in Computer Management - and have applied for several computer operator positions - with no success.

Yes, there are some jobs out there, but I can't survive on a $6.00 or $7.00 an hour job. As it is I just came from court on March 18, 2004, to stave off foreclosure on my home - I have a court hearing on April 1.
It isn't easy in the unemployment line - hope is waning and despair is close to settling in - I have almost given up a few times. But, that's not my nature, I have been a hard worker all my life - I started at age 13 delivering newspapers at 4:00 a.m. I really don't know what to do next.

Sincerely,

David Grumbos
NorthEast Ohio - (heart of the rust and broken belt)

p.s. - It is really difficult to understand how companies like RTI go into bankruptcy, lay off hundreds of workers, and re-organize and the CEO collects his million dollar bonus - something is just not right.

Rodney L. May
903 Park Ave.
Elyria, Ohio
phone#440-322-2437

440-452-4955

Mr. Evans ,N.A.F.T.A. has cost me my job. I had worked for York International for over 14 years when they decided to close their Elyria plant and move to Mexico. This was a very productive plant. Corporate Greed was the only reason to move this plant to Mexico, where the company can pay LOW wages and no health benefits to the workers. Our government has to stop these companies before we lose all of our production plants to foreign competition. My co-workers about 900 worked hard for their money, most earned about #30.000.000 just about poverty level for a family of four.

I am enrolled at Lorain County Community College majoring in computer networking, trying to start a new career, because I know that manufacturing jobs in Ohio will no longer be available. These jobs are going over seas or to Mexico. What a shame .This will take me about 3 years to complete my classes. 3 years with no income because my benefits have run out. hopefully Congress can stop large corporations from leaving the United States, before its too late

Rodney L May

March 23, 2004

Dear Sir,

This letter is in response to the fact that I am a single, unemployed mother, and the hardships that I am facing. First, let it noted that my current situation is not due to the premise that I am unskilled or uneducated. In fact I am certified as an Inspector for the manufacturing industry with twelve years of experience. As a laid-off union member, whose job went to Mexico (a result of NAFTA), it was promised to me that my government would retrain me. It was also said that this new skill would put me within 80% of my previous pay ($17.43/hr plus full benefits). That did not happen. I was laid-off in December of 2002, and my company, Midland Steel Products, closed its doors the following April, at which time I was able to apply for TRA benefits. The government refused my application for the LPN program, of which I have been attending since August of 2002, stating that it would take "too long to complete". This came as quit a shock to me for the simple fact that one, I personally know someone who did receive benefits during their LPN program, and two, I met the criteria stated by the officials conducting our TRA information meeting. This, as you can imagine, was devastating, for it left me with NO income what so ever.

Have I looked for work as on Inspector? Yes, for months, but to no avail. There are very few jobs in that market. There are very few jobs period. As a result of this, my family has suffered greatly. My bills have gone unpaid to the point where the utility companies are issuing disconnection notices, the bank is threatening to repossess my car, and the credit card companies are racking up the late fees, and over the limit fees to the point that I wonder if I will ever be able to get caught up and restore my good credit. There is no money to purchase new clothes for my children, nor was there money to buy Christmas presents this year. Have you ever had to explain that to a child? It was heartbreaking, to sat the least.

The President was on television the other day, talking about how the unemployment rate is down. That may be true, but those numbers do not account for people like myself who are out of the system, not employed.

In spite of all of this, I am trying my hardest to become a nurse. To care for those in need, but in order to do that, I am forced to take out student loans in addition to my small pell grant. I think my children, and I deserve an answer as why our government would put us in poverty. Why they would refuse, not only my LPN program, but my STNA program as well (this is a three week program).

I also think you should know that I forced to apply for ADC benefits which gives me $315.00 in cash and $375.00/month in food stamps. My rent alone is $695.00/month. We are about to lose our home. Please tell us why our government would put us through such turmoil? And please do not tell us that it would take "too long".

Thank you for your time.

Kimberly Roland

Kimberly Roland

3-23-04

To Sherrod Brown

I Am Almost out of unplayment I have only 2 Checks left. I dont know how I Am going to Pay my Rent & my Bills. Were will I Live. Lorain County It is hard to Find work. I Am trying I Lost my Job At York International in 2001 And this Job Please Help we need this extendion.

DAVID E. CARDER
1100 OAKwood DR-E-205
Elyria OH 44035
Phone # 440 323-3892

Donald S Young II
5001 Oberlin ave
APT 20B
(440) 989 1847

To Sherrod Brown

I would like to complain to you about how unemployment has done to us we get a few checks then cut us can you please helpus out

Donald Young

2/23/04

To: Congressman Sherrod Brown

Dear Sir,

This letter is to ask you to do something about the unemployment benefits extension for steel workers.

My name is Terry Collier and I have been laid off of my job 3 times in the last 6 months. My unemployment will run out soon. Since the job market is so poor in this area I have no idea what I am going to do. Please help me.

Terry Collier

TERRY Collier
222 Brunswick Dr
Apt B
Elyria, Oh. 44035
440-322-8446

MAR 23 2004 14:27 FR TO 12022252266 P.09/13

3/23/04

ERNEST HUERNER
880 CLEVELAND ST #7
ELYRIA, OH 44035

TO CONGRESSMAN SHERROD BROWN,

SINCE NOBODY ELSE WILL HELP THE LAYED OFF USWA WORKERS, I AM HOPING THAT YOU CAN DO SOMETHING TO GET OUR UNEMPLOYMENT CHECKS EXTENDED. MAYBE YOU CAN GET ENOUGH PEOPLE ON CAPITAL HILL TO GET ON BUSH'S BACK ABOUT THE GAS COMPANIES PRICE GOUGING.

THANK YOU
ERNEST HUERNER

MAR 23 2004 14:26 FR TO 12022252266 P.07/13

3/23/04

Dear Sherrod Brown my name is William Cummings I have two more week to go then I be broke for good please help us get on later

William Cummings
440- 322-5668

TERRANCE P. WILCOXSON:
1307 Nichols ST.
LORAIN Ohio 44053

TO: Sherrod BROWN; I TERRANCE P. WILCOXSON HAS BEEN OUT WORK OFF AND ON FOR SOME time, NOW, I understand that we is going to try to Do something with the employment Bending so we can get long income come in to help the Family's, and so we to can Be looking for Better Job home in the LORAIN area, yes we all need the Now here in the LORAIN & Elyria, area.

Thank you for your
CONCERN
[signature]

3-23-04

Alvin Jones.
2534 OBerlin. St. 5
246-8403

To CONGRESS SHERROD BROWN

My Life Had A Big change WHEN I got Laid off. Now That my Unemployment is Running out I Truly Need THE Extion on my [redacted] To Try to Keep A Life for A Litter LONGER.

THANKS
Alvin Jones.

MAR 23 2004 14:25 FR TO 12022252266 P.05/13

Kevin Patton
427 West 21st Lorain, Ohio
(440) 244-0088

3/23/04

To: Congressman Sherrod Brown

I've been laid off since Oct 3 2003 from Progressive Processes in Elyria Ohio and I have no idea, when I'll be returning to work. As of now I recieve unemployment Compensation, but I only have a few weeks left to recieve these benefits and I really need your help in extending the unemployment benefits.

Sincerly
Kevin Patton

MAR 23 2004 14:25 FR TO 12022252266 P.04/13

5001 Oberlin, [redacted] 20B
Lorain Ohio 44053
440 1989-1847

3/23/04

To Congressman Sherrod Brown.
The People of Lorain County have been devestated with Job loss and Plant closings. This condition continues to get worse NOT Better as Pres Bush Thinks.
Please Do As much as Possible to Grant us unemployment extension and Dollars For Retraining and Education. The Time to act is NOW. Donald S [illegible]

3/23/04

MR SHERROD BROWN,

I LIVE IN LORIAN COUNTY
WHERE IS NOT ALOT OF
JOB SOT THERE, WE
NEED TO HAVE ANOTHER
SIX MONTHS OF EMPLOMENT

~~THANK~~S
Mike Birmingham

MIKE BIRMINGHAM
1515 LINCOLN ST
AMHERST OHIO
44001

440-988-4694

3/23/04

John Starkloff
1820 E. 30th
Lorain, Ohio
44055
(440) 240-1989

To. Sherrod Brown

I would like to know why the Unemployment Extensions were cut & would like to know what we are supposed to do after our 26 weeks are up. 26 weeks are really not enough time for anything. Please do something about this problem.

Thank You

Mr. PALLONE. I didn't know that.

Chairman BARTON. The gentleman from Florida, Mr. Stearns, one of our distinguished subcommittee chairmen, wishes to make a 3-minute opening statement.

Mr. STEARNS. Thank you, Mr. Chairman. I won't be long, and I just obviously ask unanimous consent that my entire statement be part of the record. But obviously I want to——

Chairman BARTON. Without objection, so ordered.

Mr. STEARNS. [continuing] welcome the Secretary. But I would like to raise one point with the administration. I am concerned about the privacy implications of outsourcing. Jobs involving access to sensitive information are being outsourced, including financial services, medical examination, and tax preparation, and I am concerned that sensitive financial, medical, and other personal information will not receive the same type of protection that it does when work with the information is done in the United States.

I understand that companies are subject to the same U.S. privacy laws, whether they are processing the information in the U.S. or in India, but I want to know that the administration is doing all it can to ensure the privacy and security of that information. And I hope, Mr. Secretary, perhaps that you will address that.

And I thank you, Mr. Chairman.

[The prepared statement of Hon. Cliff Stearns follows:]

PREPARED STATEMENT OF HON. CLIFF STEARNS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

The Department of Commerce is often called the voice of business in government and we have its esteemed Secretary here today to testify about the state of U.S. industry. The Department has vast responsibility for areas as diverse as enforcing international trade laws to conducting ocean and coastal zone research to developing telecommunications and technology policy. Today we will use this opportunity to focus on a main priority of this Administration, as well as this Committee—economic growth and job creation. The Administration, with the assistance of Congress, has set forth a pro-growth agenda that has been a powerful tool in steering the U.S economy out of recession. Secretary Evans, as a key member of President Bush's economic team, has been a leader in implementing the pro-growth and job-creating policies of the Administration.

Perhaps the most significant recession fighting tool of the past four years has been in the form of tax cuts. Individual income tax cuts put more discretionary income in the hands of consumers who continue to fuel the demand for goods and services. Equally important was the reduction in capital gains taxes that will continue to facilitate capital investment necessary for businesses to grow. Without the tax cuts, the recession that began in 2000—exacerbated by the horrendous terrorist attacks of 9/11 and the corporate malfeasance of the late 1990's—would have had a much more debilitating affect on the U.S. economy. Instead, our economy has been growing for the past nine quarters with an impressive 8.2% growth rate in the 3rd quarter of 2003 and a healthy 4.1% growth rate in the 4th quarter. Economic growth creates jobs and the unemployment rate is indeed falling.

Despite the falling unemployment rate, there are pockets of workers for which unemployment is still high—namely the manufacturing industry. I applaud the Secretary for his focus on growth in manufacturing. The Department of Commerce recently released a report entitled "Manufacturing in America: A Comprehensive Strategy to Address the Challenges to U.S. Manufacturers." In that report, the Secretary outlines a six-point plan for improving the manufacturing sectors' competitiveness and therefore growing jobs in the years to come. Those six points include important public policy changes that are within the jurisdiction of this Committee. I urge my colleagues to recognize our responsibility for implementing these pro-growth and job-creating changes. In many of the areas the Committee has already worked hard, on a bipartisan basis, to promote growth and job creation. Specifically, the Committee has moved comprehensive energy legislation to promote affordable

and reliable supply of energy. The House has acted to enact that legislation and I urge the Senate to do the same.

Other public policy changes include making health care costs more affordable to the companies that hire workers by passing medical malpractice liability reform; passing general tort reform; streamlining regulatory requirements to provide smarter regulation that is less burdensome; reducing dependence on foreign sources of oil and natural gas; and opening foreign markets for American products. Mr. Secretary, I hope that you will call on this Committee to help implement the important pro-growth agenda you have set forth in your plan. The Committee has worked to achieve some of the goals you set forth in the report and Chairman Barton has indicated a strong desire to work on the others in a bipartisan fashion.

Before I close, I do have one important issue I would like to raise with the Administration. I am concerned about the privacy implications of outsourcing. Jobs involving access to sensitive information are being outsourced, including financial services, medical examination, and tax preparation. I am concerned that sensitive financial, medical, and other personal information will not receive the same type of protection that it does when work with the information is done in the United States. I understand that companies are subject to the same U.S. privacy laws whether they process the information in the U.S. or in India but I want to know that the Administration is doing all that it can to ensure the privacy and security of that information. I hope that you will address this issue in your testimony today and that the Administration will work with the Congress to ensure the protection of sensitive consumer information.

I thank the Chairman for holding this hearing today and I thank the Secretary for his time with us today. I look forward to a healthy dialogue on the state of U.S. industry. I yield back the balance of my time.

Chairman BARTON. We thank the gentleman.

We want to point out that members that don't make opening statements do get an additional 3 minutes in the questioning. I just thought I would mention that again.

The gentleman from Michigan Mr. Stupak is recognized I assume for a 3-minute opening statement.

Mr. STUPAK. No, Mr. Chairman. I will waive my 3. I just want to make sure that our opening statements will be made part of the record.

Chairman BARTON. All opening statements will be made part of the record.

Mr. STUPAK. Then I will waive my 3 minutes.

[The prepared statement of Hon. Bart Stupak follows:]

PREPARED STATEMENT OF HON. BART STUPAK, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. Chairman, thank you for calling this hearing, and Secretary Evans, thank you for joining us today to discuss one of the most important issues facing our country, the issue of American jobs.

On September 15, 2003, you visited the great state of Michigan and said that your department is making a series of changes to boost American manufacturing. Now, six months later, (with you at the helm of the Commerce Department) you were right, a series of manufacturing changes have occurred, but the changes that we have seen in Michigan and across America have done nothing to "boost manufacturing." In fact, in Michigan,128,900 manufacturing jobs have been lost since President Bush took office.

In a speech you gave during that same visit in September you said, and I quote, "There is no doubt that our manufacturing sector confronts serious challenges."

The Administration's answer: repeatedly slash funding for job growth programs like the Manufacturing Extension Partnership (MEP) program that has successfully helped small American manufacturers to modernize and stay competitive in the global marketplace. I know that MEP has directly helped companies in my district including Horner Flooring of Dollar Bay and Jacquart Fabric Products with 100 workers in Ironwood, Michigan.

Again, this Administration has been all talk and little action on finding ways to put people back to work. As you can see, I have with me a copy of the President's Economic Report delivered to Congress last month. If you turn to page 98 you find

the Administration has projected that their tax cuts will create 2.6 million jobs over the next year. That would require adding an average of about 216,000 jobs per month to reach the President's projection. With a little over 9 months left to go in 2004 its no wonder President Bush has recently distanced himself from his own report.

This wouldn't be the first job creation claim where the Administration has been just dead wrong. In fact, they have been wrong every time they have used this rationale as an excuse to cut taxes.

Where it **has** created jobs is overseas and abroad. In Michigan, Electrolux the refrigerator manufacturer recently announced it was closing shop and moving its 2,700 jobs to Mexico to save labor costs—although they were making a profit.

And just last week, Secretary Powell assured India that the Administration would not halt the shipping of American jobs overseas.

While I have no doubt that such an assurance helps to ease the minds of workers abroad, this sends the wrong message to our struggling workers here at home.

The bottom line is this Administration has no credibility on its job creation predictions. Instead of a real job growth plan it wants to cut programs like MEP that are essential to rural economic growth—it wants to give employers disincentives to hire new workers by allowing companies to deny workers overtime pay—and it is telling other countries—don't worry—we've got your back on outsourcing American jobs. It refuses to acknowledge that Americans can't find work and continues to deny them extended unemployment benefits.

Mr. Chairman, I look forward to hearing from Secretary Evans on exactly what steps the Administration plans to take to create American jobs. Michigan's 335,868 unemployed residents need to know.

Chairman BARTON. Well, bless you. That is a good example.

Mr. Green, are you going to waive your opening statement?

Mr. GREEN. No, Mr. Chairman. I appreciate our Secretary——

Chairman BARTON. The gentleman is recognized for 3 minutes.

Mr. GREEN. [continuing] being here for 3 hours, or 2½ hours, but—and, again, I want to thank the chairman and our ranking member for holding this—I think this is the most important hearing we have had this year on the state of U.S. industry. And, again, I join my fellow Texan, the chairman, in welcoming a neighbor, even though he is from Midland and I am from Houston—it is kind of close in Texas terms—Secretary Evans to testify.

Mr. Secretary, since this administration came to town, our State of Texas, we have lost 175,000 manufacturing jobs. In fact, in Texas, we have lost more manufacturing jobs than any other state, with the exception of California. And since 2000 our country as a whole—and, again, I see different numbers, but the one I think is common is that we have lost 2.8 million manufacturing jobs.

During a time of economy recovery, we shouldn't forget that manufacturing jobs are traditionally the engines of our economic growth in our country. Furthermore, these highly skilled, good-paying jobs have been the backbone of a strong middle class that has been the foundation of opportunity in our country. And to me this is where the issue of outsourcing comes in.

And the economic term may be outsourcing, and the practice may be utilized to help a company's bottom line by decreasing labor costs, but at the end of the day outsourcing is the wilful exporting of jobs. And if we continue to export those manufacturing jobs, there is a very real possibility that our country's labor market will be made up of highly paid executives and low wage earners in service sector jobs with no middle class in between.

And if there are doubts about the possibility of that, one need only flip through the recently released economic report of the President, to which the chief economic advisor suggested that making hamburgers in a fast food restaurant constituted manufacturing.

We have learned the hard way that manufacturing jobs aren't the only ones being exported. Many high tech and service sector jobs are also leaving our country, and I represent a district that has been losing manufacturing jobs for decades.

Our district in Texas is the third most blue collar district in the country, and the fifth youngest in the country according to the 2000 Census. And I have long encouraged my younger constituents, and even my older ones, to retain for the high tech skills, yet now even the high tech service sector jobs are being exported. In fact, 3.3 million are scheduled to leave the country within the next 15 years.

How do we, as a Nation, keep our high standard of living where we are not only exporting manufacturing jobs, but now highly skilled information-related jobs, to the lowest wage countries with an adequately skilled labor market? Yesterday's Wall Street Journal highlighted some of the professions that will be exported in other countries—accountants, tax professionals, technical writers, architects, legal and investment researchers, and insurance claims processing.

What are we supposed to tell our constituents who have been retrained for these high tech jobs only to find those jobs, too, are being exported? We can't expect them all to go into manufacturing hamburgers.

Mr. Secretary, the arguments coming from our administration are troubling. It is unconscionable that the President's top economic advisors would call exporting American jobs just a new way of doing international trade, and that it is probably a plus for the economy in the long run. And, again, being a business school major from the University of Houston, I understand economics professors. But often times they don't——

Chairman BARTON. The gentleman's time has expired.

Mr. GREEN. [continuing] have the real world—well, thank you, Mr. Chairman. I would like my full statement to be placed into the record.

Chairman BARTON. Without objection, so ordered.

Does the gentlelady from Missouri wish to make an opening statement? Ms. McCarthy?

Ms. MCCARTHY. No, sir.

Chairman BARTON. Okay. The gentleman from Ohio, then, is recognized for 3 minutes.

Mr. STRICKLAND. Thank you, Mr. Chairman, and Mr. Secretary.

Mr. Secretary, I come from Ohio, a State that has lost 168,000 manufacturing jobs in the last 3 years. Mr. Secretary, I have read your testimony. You say that, clearly, the President is taking the country in the right direction. However, data from the Bureau of Labor Statistics show the President is headed toward the worst job growth in 58 years. In fact, he will be the only President since Herbert Hoover to have a net job loss during his term.

You say in your testimony that our companies and workers see international trade as a simple question of fairness. When I went to Mexico recently, Mr. Secretary, and I asked, "Is it fair to encourage a race to the bottom? Is it fair to exploit foreign workers who make only $38 a week?"

You say we all know the rising health care costs are eroding competitiveness. But the administration had a chance during the Medicare bill to support the reasonable reimportation of cheaper drugs from Canada, and to allow the Secretary to negotiate lower prices for drugs, and they resisted those efforts.

You say that we are preparing—the next generation of America's leaders starts with the basis, and that is why the passage of the No Child Left Behind bill was so important. But, Mr. Secretary, the Republican Governor in Ohio and the Republican legislature commissioned a study, and that study concluded that the No Child Left Behind bill is costing Ohio $1.4 billion per year as an unfunded mandate.

Mr. Secretary, you say the decline of manufacturing employment and the rise of service employment are manifestations of structural change. But what do you say to the fact that we are exporting service jobs overseas? We all know that is happening, and I have introduced H.R. 3816, the Call Centers' Consumers Right to Know Act, and simply this bill would just simply require call center staff to disclose their physical location at the beginning of each call, so the American consumer would be informed.

And while we are talking about service jobs, I would like to share with you what happened to Mr. Kirk Tremain, who is a constituent in my district. Mr. Tremain worked in the electrical industry in Eastern Ohio. GM closed that. He went to Mexico. He was out of work. He went to work for U.S. Steel. The steel mill shut down. Then he went back to school and got a bachelor's degree, got a high tech job in the computer industry, and National Citibank has taken that job to India. What do we say to Mr. Tremain and others like him who are losing these jobs?

And then, I close with this. In the President's economic report, these words, "When a good or service is produced at lower cost in another country, it makes sense to import it rather than to produce it domestically." Mr. Secretary, I would like a list that cannot be produced at lower cost in another country. I think that list would probably be rather short. And I look forward to your testimony, sir.

Chairman BARTON. The gentleman's time has expired.

Does the gentlelady from New Mexico wish to make an opening statement?

Ms. WILSON. Thank you, Mr. Chairman. Yes, I do.

Chairman BARTON. New Mexico.

Ms. WILSON. Thank you, Mr. Chairman. I appreciate your having this hearing.

Mr. Secretary, thank you for being here. Despite some of the rhetoric from my colleagues on the other side of the aisle, the reality is that our economy is growing. The interest rates are low, inflation is low, the stock market has recovered. Unemployment is below the 30-year average for unemployment in this country.

We need to continue with economy policies that include low taxes, fair regulation, and America is the best in the world at providing a stable environment for companies to be able to invest and grow and produce wealth.

I think it is important, because we hear a lot about it these days, to talk a little bit about trade. Ninety-five percent of the people in this world are not American citizens. If Americans are going to sur-

vive, we need to be able to sell what we produce to those people who aren't privileged to have been born in America.

So a return to protectionism can't be the answer. So what is the answer? Well, first, we have got to understand the challenge. In the last 10 years of human history, in the last 10 years, more people have joined the free enterprise system in this world than at any other point in human history. That has a huge economic impact in the world that we live in.

Of all the jobs that were lost in the recession of 2000 and 2001, only 1 out of 100, 1 percent, were outsourced or offshored. And at the same time, other foreign investors had the opportunity to invest in America. And when you build a Sunnheiser plant in Albuquerque, New Mexico, or Heel, Inc. from Germany comes and sets up a new operation in Albuquerque, New Mexico, that capital brings jobs here in America. And 16 million Americans owe their jobs to international trade.

The real challenge in our economy is actually productivity, which is a good thing in general, although hard to deal with if you are one sitting without a job. Productivity growth has moved from manufacturing to service productivity growth, and anybody who has checked in at an airport recently, or gone through Home Depot and checked out their own stuff at the front of the store, knows what productivity is all about.

UPS used to have 70 service centers, and in those service centers they had clerks who filled in timesheets every week for every UPS employee around America. Now that clipboard that a UPS guy carries punches in his time, and when he plugs it into the dashboard of his truck it automatically reports his time, and all those people filling out timesheets are now doing another job.

So the real issue in our economy is: how do we take advantage——

Chairman BARTON. The gentlelady's time has expired.

Ms. WILSON. Thank you, Mr. Chairman.

Chairman BARTON. Finish the statement, though.

Ms. WILSON. The real challenge for our economy is how we take the productive American workforce and train them for the next highly productive, well paid job. And that is the challenge I look forward to your testimony on, sir.

Chairman BARTON. The gentlelady's time has expired.

The gentlelady from Colorado?

Ms. DEGETTE. I will submit my statement.

[The prepared statement of Hon. Diana DeGette follows:]

PREPARED STATEMENT OF HON. DIANA DEGETTE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF COLORADO

"Anemic." "Unambiguously ugly." "Terribly disappointing." "Uncharted territory."

So read the comments from financial analysts and chief economists with regard to February's lackluster job creation of 21,000 jobs. When one digs deeper, an even bleaker picture of the current labor market emerges: all 21,000 jobs in February were created in the public sector with the private sector showing no job gains—an especially disturbing fact given the enormity of this Administration's tax cuts in favor of the private sector. While the Administration will assert that unemployment levels have held steady at 5.6% and therefore there is nothing to worry about, we are all painfully aware of the reason for this: hundreds of thousands of workers, discouraged by the current labor prospects in our economy, have dropped out of the labor force.

Unfortunately, the February jobs report is only the most recent evidence that the economic recovery is not going according to plan. Real wage growth is at its lowest level since 1987. The average period of unemployment of 20.3 weeks is the longest it has been since 1984; 23% of the unemployed population have been out of work for six months or more. The average number of jobs produced in the past three months was a paltry 42,000, compared to the 150,000 jobs needed just to keep pace with those entering the labor force. The manufacturing industry has shed 6.2 million jobs since 2001. Consumer confidence in February plunged to its lowest level in months. Both consumer and federal debt levels have reached record highs, making our country increasingly vulnerable to fiscal crisis if—or more precisely, when—interest rates increase.

Yet, despite the economy's anemic job growth, soaring federal deficits and decade-low real wages, the Administration has unwaveringly adhered to its misguided fiscal policy of tax cuts for the rich, no matter what. A case in point is the recent report issued by the U.S. Department of Commerce, "Manufacturing in America," in which the Department recommends making President Bush's tax cuts permanent in order "to address the challenges identified by U.S. manufacturers." Apparently, the Administration is unconcerned with the overwhelming evidence that after *three consecutive years* of major tax cuts, the economy has failed to produce jobs, especially in the manufacturing sector, which has lost 2.6 million jobs since the beginning of 2001. Frankly, I do not know how the Administration justifies making at the center of their proposal to help American manufacturers, a tax cut plan that provides an average tax cut of $112,925 for the very rich and a paltry $400 average cut for the majority of Americans.

The impact of making the Bush tax cuts permanent is not theoretical—it means less money for services and programs that make a real difference in the lives of Americans, including programs that create jobs. In fact, the Bush Administration, citing huge deficits that it is primarily responsible for creating, is threatening to veto the transportation authorization bill, *the* largest job-creation legislation proposed in the 108th Congress.

Additionally, President Bush, in his recently released budget, proposes the fourth consecutive annual cut of $80MM to the Small Business Administration program, a program that provides long-term loans to more than 30 percent of all small businesses. This cut to the Small Business Administration program represents one of the largest agency cuts under the President's budget and is especially questionable given that small businesses employ *nearly half of all workers* and create *three out of four new jobs.* I personally cannot reconcile how President Bush claims that he is doing everything possible to create new jobs, yet he cuts funding for the very loan program that would ensure that small businesses—a lynchpin to economic recovery—have access to capital they need in order to grow and create new jobs. While the Administration pays lip-service to creating jobs, it repeatedly cuts programs that would provide real employment opportunities for the American people, opting instead to push forward its agenda of tax cuts for the rich, no matter what.

Although the Administration will cite Gross Domestic Product growth numbers and housing starts statistics as proof of an economic recovery, such data is irrelevant when Americans do not have jobs. I am eager to hear from Secretary Evans what action he plans on taking, other than making the Bush tax cuts permanent, in order to improve the labor opportunities for Americans and I thank him for his presence in front of this committee today.

Chairman BARTON. Okay. The distinguished gentleman from Pennsylvania wishes to make an opening statement.

Ms. DEGETTE. He is distinguished?

Chairman BARTON. I called you—you are gentle. You are gentle and distinguished. He is just distinguished.

Mr. DOYLE. Mr. Chairman, I ask unanimous consent to submit my full statement for the record, along with a report on manufacturing in Pennsylvania recently completed and issued by the Pennsylvania Industrial Resource Center and——

Chairman BARTON. Without objection, so ordered.

Mr. DOYLE. [continuing] the Pennsylvania Foundation.

Chairman BARTON. And we will also—we have looked at Mr. Brown's documents, and they will also be put in the record.

Mr. DOYLE. Mr. Chairman, my clock is ticking here.

Chairman BARTON. Oh, I will restart it.

Mr. DOYLE. Thank you. Mr. Chairman, I want to thank you for holding——

Chairman BARTON. I am not going to cheat you, Mr. Doyle.

Mr. DOYLE. I want to thank you for holding this hearing today, because there are few issues of greater importance, not only to my district but to the country as a whole. And I want to also thank Secretary Evans for appearing before us today, and I hope, Mr. Secretary, that you will be able to take the concerns and sentiments that I suspect will be expressed here back to the administration and the White House in the hope that some changes can be made.

And rest assured, change is what we need because our economy is floundering, especially when you look at the job losses and lack of new job creation. I represent Pittsburgh and the surrounding metro area in the heart of Western Pennsylvania, where manufacturing and hard work have ben the hallmark of generations. And based on the amount of visits that the President and the Secretary have made to my district since the administration began, it would seem as though they were really committed to the residents in the area I represent.

Yet, since January 2001, when President Bush took office, Pennsylvania has lost 154,700 manufacturing jobs. And I would say to my friend from New Mexico, that is not rhetoric, that is people that can't put bread on their table anymore. An additional 287,600 people are unemployed in my State.

This suggests very strongly to me—and a great many of my constituents—that regardless of what the travel schedule of the Bush administration has been, this administration has been bad for the economy and terrible for jobs. And yet I am not sure what the administration plans to do to address these issues. As near as I can figure, the basis of the entire Bush economic agenda is to make these excessive tax cuts permanent and expand free trade agreements.

Well, they made a lot of promises about how many jobs would be created by their tax cuts, and how many more will occur if we just make these tax cuts permanent. But I want to mention 154,700 manufacturing jobs have been lost in my State since this tax-cutting frenzy began.

And as far as calling for more in expanded free trade, it may be free, but it certainly doesn't seem to be fair, as it is leading to more and more outsourcing of our jobs in manufacturing and many other areas. And some people in this administration have actually said this is a positive development.

Well, when I consider these issues, I also find myself thinking about what has been a success story? What have we done to improve the climate in manufacturing? And the first thing that comes to mind is the Manufacturing Extension Partnership. In Pittsburgh, the MEP has been tremendously successful, helped create 164 businesses and generate $90 million in sales alone, and keep or create 400 jobs in 2001.

Yet the Bush administration in the middle of this massive manufacturing job crisis has proposed a budget that would slash funding to the MEP to just 33 percent of last year's level. So for these reasons and others, I find myself wondering, just what does this Bush

administration really have in mind when it consider the status of our manufacturing base?

I am hoping Secretary Evans can shine some light on just what the agenda is when it comes to creating jobs and restoring a commitment to our manufacturers——

Chairman BARTON. The gentleman's time has expired.

Mr. DOYLE. [continuing] in this country. As it stands now, Mr. Chairman, I really have to wonder.

[The prepared statement of Hon. Mike Doyle follows:]

PREPARED STATEMENT OF HON. MIKE DOYLE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

I want to thank Chairman Barton for holding this hearing today as there are few issues of greater importance to not only my district but the country as a whole. I also want to thank Secretary Evans for appearing before us today and I hope, Mr. Secretary, that you will be able to take the concerns and sentiments that I suspect will be expressed here back to the Administration and the White House in the hopes that some changes can be made.

And rest assured, change is what we need because our economy is floundering especially when you look at job losses, the lack of new job creation, and the unemployed and underemployed. I represent Pittsburgh and the surrounding metro area in the heart of western Pennsylvania where manufacturing and hard work have been the hallmark of generations.

Based on the amount of visits the President and the Secretary have made to my district since their administration began, it would seem as though they were really committed to the residents of the area I represent. Yet since January of 2001, when President Bush took office, Pennsylvania has lost 154,700 manufacturing jobs. That's a truly massive number! Additionally, data from the Bureau of Labor Statistics indicates that there are 287,600 unemployed workers in Pennsylvania which includes 54,400 in the Pittsburgh metro area. This suggests very strongly to me and a great many of my constituents that regardless of their travel schedule, the Bush administration has been bad for the economy and terrible for jobs.

And yet, I'm not sure what the administration plans to do to address these issues. As near as I can figure, the basis of the entire Bush economic agenda is to make their excessive tax cuts permanent and to expand free trade agreements. Well they've made a lot of promises about how many jobs would be created by their tax cuts and how many more will occur if all the cuts are made permanent, but like I mentioned 154,700 manufacturing jobs have been lost in Pennsylvania since their tax cutting frenzy began. And as far as calling for more and expanded free trade, it may be free but it certainly doesn't seem to be fair as it's leading to more and more outsourcing of our jobs in manufacturing and many other areas and some people in the administration have actually said that is a positive development.

When I consider these troubling issues, I also find myself thinking about steps that have been taken to improve the climate for manufacturing and some of the successes we have had. Immediately the Manufacturing Extension Partnership comes to mind. In Pittsburgh, MEP has been terrifically successful over the years. The Pittsburgh-based MEP-funded center is Catalyst Connection which shares a mission with MEP centers throughout the nation to help small and medium-sized manufacturers adopt new processes and technology to allow them to be more productive and create more jobs. Since Catalyst Connection was begun in 1988, they have helped over 1,000 local manufacturers, and in all of Pennsylvania the MEP helped 164 businesses generate nearly $90 million in sales and keep or create 400 jobs in 2001 alone. Yet, the Bush administration, while in the middle of this massive manufacturing job crisis, has proposed a budget that would slash funding for the MEP to just 33 percent of last years level. That's an approach that simply doesn't make any sense and will devastate this highly successful and important program.

Then there's the steel industry which is also very important to my district and the country. Less then two years ago, this administration took an important step by enacting temporary steel tariffs to address the illegal dumping of surplus steel on our domestic markets. These tariffs were scheduled to remain in place for at least three years to give the steel industry time to consolidate and recover from the unfair beating they had been taking. Well we did make some progress in that regard and there was reason for optimism about this industry that is so vital to our economy and national security. But unfortunately, last December, President Bush buckled under to threats from our European allies and pulled those tariffs away

way too soon and long before the initial three year period was over. Right now, the steel industry is still standing thanks at least in part to a temporary bubble in high prices. But that bubble will burst, dumping could resume, and without the industry having had the chance it deserved to fully recover there's no telling what will happen. You did the right thing by enacting the tariffs but you've made a tragic mistake by pulling them away too soon.

So for these reasons and others I find myself wondering just what this Bush administration really has in mind when it considers the status of our manufacturing base. I hear far too many people say that before too long we won't really make anything in this country anymore and believe me that has serious ramifications, not only for our economy, but for our national security that this Administration purports to be so concerned about. So I'm hoping maybe Secretary Evans can shine some light on just what the Bush agenda is when it comes to creating jobs and restoring a commitment to our manufacturers in this country. As it stands right now, I really have to wonder.

Chairman BARTON. We thank the gentleman.

Mr. BUYER. Mr. Chairman?

Chairman BARTON. Does the gentleman from Indiana wish to make an opening statement?

Mr. BUYER. I have a—I would like to make a unanimous consent request.

Chairman BARTON. The gentleman is recognized.

Mr. BUYER. I would ask unanimous consent that members of the committee submit their opening statements for the record. And for those who do not give a statement, be added their time in accordance to the rules of the committee.

And the reason I ask unanimous consent request is the Secretary is here on limited time, and we would—it would behoove all of us to hear the Secretary.

Chairman BARTON. The gentleman——

Mr. BUYER. So I would make this unanimous consent request.

Chairman BARTON. If the gentleman would withdraw that request—would the gentleman withdraw that request?

Mr. DINGELL. I am reserving the right to object.

Chairman BARTON. The gentleman from Michigan is reserving the right to object. The gentleman is recognized.

Mr. DINGELL. I believe that the gentleman is seeking a unanimous consent that all members will waive their opening statements. And my concern here is that: a) this is a precedent which troubles me, and b) I am not sure how members on both sides of the aisle might feel about this matter.

I will be content to let the members comment on this, if they wish me to yield. And I also would say, as long as this does not constitute a precedent, I am willing to consider the matter further.

Chairman BARTON. Would the gentleman yield?

Mr. DINGELL. I would yield to my good friend.

Chairman BARTON. If the gentleman from Indiana insists on his unanimous consent request, I am going to object to it. I have already asked members to defer, but under the rules every member has a right to give an opening statement. Some have used that right; some have deferred, which they will get an additional 3 minutes.

So, you know, we are going to have openness and civility and democracy, and we do hope that we do get to the Secretary at some point in time this morning, so he can make an opening statement himself and then take some questions. And I am sure in the question period we are going to have a very good debate about many

of the things that Mr. Doyle and Mr. Strickland and Mr. Brown and Mr. Pallone and Ms. Wilson and——

Mr. DINGELL. I think the Chair has made a good point.

Chairman BARTON. All right.

Mr. DINGELL. And with respect for my good friend from Indiana, I do object to——

Chairman BARTON. Well, let me give the—before the gentleman—would the gentleman withhold his objection just a second? Or is that parliamentarily possible?

Mr. DINGELL. I didn't hear that, Mr. Chairman.

Chairman BARTON. I said can you withhold your objection to give him a chance to withdraw his——

Mr. DINGELL. I will withhold, certainly.

Mr. BUYER. I don't want to waste any more time even debating this.

Chairman BARTON. Would the gentleman withdraw his——

Mr. BUYER. Just stop the pontification.

Chairman BARTON. Did the gentleman withdraw——

Mr. BUYER. I withdraw the unanimous consent request.

Chairman BARTON. The gentleman withdraws his unanimous consent request.

Mr. BUYER. I am anxious to hear from the Secretary.

Chairman BARTON. All right. Let us see. Now, where were we? Mr. Doyle had given an opening statement. Is there a member of the majority who wishes to make an opening statement? Seeing none, the Chair would recognize Mr. Allen for an—for what purpose?

Mr. ALLEN. To make an opening statement.

Chairman BARTON. The gentleman is recognized for 3 minutes.

Mr. ALLEN. I thank the chairman. And I would only comment when you get down to my level, Mr. Secretary, the possibility exists we might not be able to speak to you at all, just because of time constraints. But I thank you for being here.

When the history of the Bush administration is written, I tend to think it will be characterized as having been motivated by three grand obsessions—Iraq, missile defense, and tax cuts for the wealthiest among us. I believe that two qualities of obsessions is that those who hold them become impervious to evidence that challenges received opinion; and, second, that it prevents us from focusing on emerging challenges.

The loss of manufacturing jobs in this country is a rapidly growing challenge. And in my view, the administration has no plan that is adequate to the seriousness of the problem. My home State of Maine has lost more manufacturing jobs per capita, I believe, than any other State in the country since the President took office. But as I said, there seems to be no plan of—adequate to the seriousness of that problem.

In Maine, we live next to Canada. And our small businesses know all too well that sawmills in Canada, to take one example, don't have to pay for their health care, and they don't have to pay for their workers comp. And all across this country health care premiums are rising at a rate that is driving our small business men and women out of business. They simply can't compete.

And yet, once again, this administration has no plan adequate to the seriousness of this health care problem that will address what we are looking at. Instead, this administration has proposed a budget that reduces funds for job training, reduces funds for vocational education, cuts SBA programs, eliminates the microloan program—small program, but it meant a lot to Maine—and, as my friend from Pennsylvania has said, reduces the Manufacturing Extension Partnership Program from $110 million to $39 million.

Mr. Secretary, unless we get away from this obsession with tax cuts for the wealthiest Americans, we cannot devote ourselves to the real business of figuring out how to help this sector of our economy that is bleeding jobs not just overseas but here as well, and particularly how we deal with those people who no longer have a job, and, therefore, have lost their health care and lost their other benefits when their job goes.

The hard, cold truth is losing a job in this country is much harder, has much more severe consequences, than losing a job in the rest of the developed world. And I believe this administration needs to deal with that particular problem.

I thank you for being here.

Chairman BARTON. The gentleman yields back the balance of his time.

Does any other member on the minority side wish to make an opening statement?

Mr. COX. Mr. Chairman?

Chairman BARTON. Oh, Mr. Cox, do you wish to make an opening statement?

Mr. COX. I do. Mr. Chairman, I just wanted to welcome——

Chairman BARTON. The gentleman is recognized for 3 minutes.

Mr. COX. [continuing] the Secretary and respond, because the Secretary isn't being given the opportunity yet, to respond to some of what we are listening to. I think it is important to recognize, first, we have before us the Secretary of Commerce, not the Secretary of Treasury.

But if people want to raise tax policy, then I think we need to point out that instead of incessantly repeating this mantra about tax cuts for the wealthiest Americans, we ought to acknowledge that is intentionally misleading, because the President cut taxes, and the Congress cut taxes—tax rates, I should say. Revenues to the government are way up because of the economic growth it spurred. We cut tax rates for everybody, and we cut them disproportionately for the lowest bracket.

Over half of the tax benefit goes to the bottom 10 percent bracket. There are disproportionate tax cuts for the least wealthy taxpayers in America, and the Tax Code is more progressive. It is less flat and more progressive than it used to be as a result of those tax cuts, and it has created economic growth.

People need to be reminded that we had a recession, and that recession is behind us. And we are creating jobs, and the tax rate changes either caused that improvement in the economy, or they certainly didn't stand in the way of it. But there is no reason to complain about that.

I think it is also important to point out when we are talking about jobs that our economy is creating jobs. We don't have the

Secretary of Labor before us. We have the Secretary of Commerce. But if people want to talk about job statistics, we need to focus on the fact that the unemployment rate, which by any standard is remarkably low in America right now, is lower than it was during the 1990's when everybody's favorite President, Bill Clinton, was in charge. It is lower now.

The unemployment rate is lower, and more people work in America right now than at any time in our Nation's history. So add it up. Do the math. There are more Americans at work today, more jobs in America today, than at any time in our Nation's history in terms of the total number of jobs. And as a percentage of the total workforce, the unemployment rate is lower right now than it was during the 1990's.

So what part of this math don't people understand? Now, obviously, you look around the country and it is not the same everywhere. And that is why we are working on policies that create growth, and that is why I want to compliment the Secretary for some of what I know we are going to hear from him today.

Thank you for your leadership in helping create certainty in our economy, so that the tax rate changes that we made are permanent and people can plan and create jobs. Jobs are not created in an environment of uncertainty and raising taxes.

I think this abundant concern that people have for the pocketbook of the government and the lack of concern they have for taxpayers, particularly as we near April 15, is unbecoming.

Thank you for your leadership on regulatory review and the costs that regulation imposes on job creation. Thanks for your leadership in helping lower health care costs. Thanks for helping modernize the U.S. legal system, which is driving jobs overseas.

Chairman BARTON. The gentleman's time has expired.

Mr. COX. Thank you very much for all of this, and I thank the chairman for letting me respond to some of what we heard.

Chairman BARTON. We appreciate that.

Mr. Secretary, before I introduce the next person for an opening statement, you need to know that Mr. Markey is noted for his opening statements.

He normally gives a very serious, with a real educational message, but he doesn't consider it a crime that they also be entertaining and amusing. Now, I am going to put him on the spot and make a prediction that if anything gets on the 6 news tonight in the opening statements it is going to be from the next opening statement, Mr. Markey.

So with that, for 3 minutes, the Honorable Ed Markey of Massachusetts.

Mr. MARKEY. Thank you, Mr. Chairman. I could actually sing you my song that I sang on St. Patrick's Day in Boston, but I think at this point I will spare you.

The point—to my friend from Indiana, Mr. Buyer, just so you understand how we view it on this side, this will be the only appearance of the Secretary of Commerce in his 4 years as Secretary of Commerce before the Commerce Committee. And so since he is only going to be testifying from 20 past 10 in the morning until 12:30, you can imagine where out of 4 years——

Chairman BARTON. Hopefully he will get to testify.

Mr. MARKEY. Yes. Well, I appreciate that. But out of 4 years, to give us 2 hours and 10 minutes on the committee of jurisdiction over the Commerce Committee is something that, you know, it does kind of test the patience of our side, because there are so many questions that we feel he could be answering to us and through us for the American people. So that is our perspective on it. Two hours and 10 minutes out of 4 years just isn't enough time.

So we are going to be respectful of the Secretary here today, because he says he has more important things to do. But over the course of 4 years, we do wish that there had been more time given to us.

Mr. Secretary, my home State of Massachusetts lost 9,500 jobs last month. Since 2001, we have lost a total of 200,000 jobs, and unemployed workers in Massachusetts now can expect to be out of work an average of 5 months—the longest average period of unemployment in 20 years. Nationwide there are 8.2 million jobless Americans, and 3 million fewer private sector jobs than there were just 3 years ago.

As many Americans try to make ends meet, the outsourcing of jobs overseas has received considerable attention. Less notable, but also troubling, is the growing practice of offshoring American private medical and financial information to less developed countries such as India and Pakistan, where the information is processed for U.S.-based firms.

These countries lack the privacy safeguards that are in place when records are processed in the United States, and U.S. privacy standards are not enforceable overseas. And offshoring of information, as it increases, Americans are losing their jobs and their privacy in one fell swoop.

When American companies send private information overseas, they are telling consumers, "Check your privacy at the shore." Last year, a worker in Pakistan who was transcribing medical files for a California hospital threatened to post the confidential records on the Internet unless she received money that she claimed was owed her. She backed up the threat by attaching two patient files to an e-mail warning that she sent to hospital officials.

The San Francisco Chronicle has reported that 2 of the 3 major credit reporting agencies, each holding detailed files on about 220 million U.S. consumers, are in the process of outsourcing sensitive operations abroad, and a third may follow suit. So while your credit cards stay safely in your wallet, your credit reports travel the world, racking up frequent flyer miles as you sleep.

I have requested from the Bush administration their policy on how we are going to protect privacy overseas. I have yet to receive an answer from the Bush administration on this issue. I don't think there is a more sensitive issue to all Americans, regardless of party, than what happens to their financial and medical records as they are shipped overseas into the hands of people that are not under U.S. law.

And I think the American people deserve an answer to that question. I thank the chairman very much.

Chairman BARTON. The gentleman's time has expired.

Any other—the gentlelady from Illinois, Ms. Schakowsky, is recognized for 3 minutes.

Ms. SCHAKOWSKY. Thank you, Mr. Chairman. And I thank you——

Chairman BARTON. Let me say the distinguished and gentlelady. I have gotten in a bad habit of just saying gentle when I say the females, and I say distinguished for the males. So the distinguished and gentle——

Ms. SCHAKOWSKY. You are taking my time, Mr. Chairman. Please——

Chairman BARTON. I am not going to count this against you.

Ms. SCHAKOWSKY. Thank you very much, Mr. Chairman, my distinguished chairman.

And I thank you, Mr. Secretary, and I appreciate the opportunity to tell you that something you said yesterday really offended me, and I wanted to just ask you about it. Economic isolationists—words that you used to characterize people who are very concerned about exporting jobs overseas—economic isolationists are waving a surrender flag rather than an American flag.

And I have been feeling for a long time that those individuals who disagree with policies of this administration—and you are entitled to your views, and we are entitled to ours—are characterized often as unpatriotic, as appeasers, and now as waving a flag of surrender.

And I am offended by that on behalf of Jeanette, someone in Illinois who lost her job when McCloud USA Publishing exported 278 of its jobs to India. I don't think she is an economic isolationist.

Or what do you call hardworking Americans like Ralph, who worked hard his whole life and lost his job when Premier Auto Finance closed its doors in the Bush economy, whose unemployment benefits are going to end soon, since the Bush administration has refused to extend them, and who is faced with the daunting prospect of now losing his health care. I don't call him an isolationist. I call him a hardworking patriot.

Or what about the one out of six manufacturing jobs that has been lost in the State of Illinois during the Bush economy? One hundred thirty-nine thousand, just manufacturing jobs, a total number of 258,000 jobs.

In January 2004, Mr. Secretary, there were 25 percent more people unemployed in Illinois than in January 2001. These are hardworking Americans. These are patriots. These are people who are concerned about exporting our jobs overseas. These are not people waving a flag of surrender rather than an American flag. These are people who proudly salute our flag, whose children pledge their—to their flag every morning in school and whose parents are out of work right now.

I think it is so wrong to characterize people who accept—who embrace our country, our great Nation, want full employment, as somehow less than full Americans, and that we are waving some sort of flag of surrender. Your administration said that—the President said that in 2001 the tax cuts would create 800,000 more jobs by the end of 2002.

In February, the claim was that new tax cuts would create 510,000 new jobs in 2003; 891,000 new jobs in 2004. We have lost 2.3 million jobs. I think that our—this administration needs to be held accountable for the loss of 2.3 million jobs, a net loss rather—

in the private sector rather than talking about how the state of American industry is strong or the resilience of the American economy when so many people are suffering right now, patriotic Americans who are suffering.

Mr. Secretary, I thank you.

Chairman BARTON. The gentlelady's time has expired.

Is there any other individual who wishes to make an opening statement? The gentlelady from California, Ms. Solis, is recognized for 3 minutes.

Ms. SOLIS. Thank you. Thank you, Mr. Chair.

And thank you, Mr. Secretary. I would like to request unanimous consent to submit my testimony, but I also would just like to make a few comments.

Chairman BARTON. Without objection.

Ms. SOLIS. And briefly, Mr. Secretary, I know that you are involved in overseeing many aspects of our commerce in our country. And, yes, with respect to jobs and the economy, in my district alone in California we have lost over 20,000 jobs. Unemployment rates in my district are a scathing 9 percent. They have been that way for the last 3 years.

We have many working families who don't have insurance. They don't have medical insurance. They are very concerned about the fact that the new prescription drug benefit program that was voted upon will not allow for us to negotiate lower prices for medicines.

We have people that are telling me, Congresswoman, "Who is going to protect us, then? If these pieces of legislation are going through, who are going to be the valiant folks to stand up for us?" I have a problem also with respect to the loss of jobs that are being outsourced.

One of my small companies in the area of Covina, which was previously represented by another Member of Congress, lost 110 employees. Their jobs are gone out of this country. With NAFTA used as something to provide an incentive some years ago, that we would somehow see growth in our country as well as abroad, and in Mexico in particular, I have yet to see that.

I understand there are over 850,000 jobs that were lost because of NAFTA. And on a recent trip that I had Ciudad Juarez in Mexico, the maquilas—the U.S. maquilas that went down there to provide opportunities for people there to earn $30, a grandiose number—$30 a week—have now—half of those maquilas have left. They have gone to China.

What happens to those folks, then, that want to try to find some meaningful way of having salaries that would provide for them? They try to cross the border. So what is it that we are doing with NAFTA that isn't working? Now we are changing another page and going into NAFTA plus, which is CAFTA, going to Central America where, again, we are looking at cheap labor, labor probably only providing an incentive of maybe less than half of what they earned in Mexico for jobs in Nicaragua and El Salvador.

Those jobs we are losing because the needle trades, textiles, and other manufacturers here have lost those jobs to those parts of our hemisphere. And I worry, because in my district where we have 60 to 70 percent Hispanic population, hardworking folks, that some-

how the hope and the dream of a recovery here in this country is not real for them.

Unemployment rates for the Hispanic population across the country has been a staggering 7.4 for the last 3 years. It has not changed. It has gotten worse for people of color in my district, and people who work hard who think that they should be able to have some dignity in the United States. So I ask you to contemplate those questions, and I will submit my statement and some other questions.

[The prepared statement of Hon. Hilda L. Solis follows:]

PREPARED STATEMENT OF HON. HILDA L. SOLIS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Thank you Mr. Chairman. I also want to welcome Secretary Evans to the Committee today and to thank him for joining us for this important hearing.

The issue that I hear about most often when I return home to my district every weekend is the economy. For three years, I have watched as unemployment in every one of the cities I represent in Los Angeles County has risen steadily. In some areas of my district, particularly in East Los Angeles, South El Monte, and El Monte, areas with large Latino populations, the unemployment rate has hovered near or over 10%, well above the national average. In fact, the unemployment rate among Latinos nationwide, now at 7.4%, has increased a remarkable 28% since President Bush took office.

In total, over 20,000 of my constituents are currently looking for work. Many of them have been unemployed for a long period and have exhausted their jobless benefits. Even those that are fortunate to find work are bringing home paychecks that are sizably less than what they received at their old jobs.

The trade and tax policies of the Bush Administration are not creating much-needed jobs.

As our manufacturing industry continue to bleed jobs, President Bush continues to aggressively pursue free trade agreements that exacerbate our job loss problems. These agreements fail to include basic labor and environmental standards. Without such standards, especially in the context of a trade agreement with Central American nations where labor standards are so poor and so rarely enforced, we continue to provide incentives to companies to move jobs out of the United States.

The North American Free Trade Agreement has been a disaster for our economy, contributing to the loss of over 850,000 well-paying American jobs. It has also led to a half a trillion-dollar trade deficit that is spiraling out of control and creating more job loss. In my own district, the Medsep Corporation in Covina had to layoff 110 employees last year because of competition from imported goods. CAFTA, or as I call it, NAFTA-plus, would have a similar effect on our economy.

The Bush Administration has called outsourcing "a positive development." I don't see anything positive about putting hard working Americans out of work and onto unemployment lines. While the Bush Administration may be surprised at our economy's low job creation level, my constituents are not. For them, the distressed state of our economy and its devastating impact are a reality.

Each day in this country, 85,440 workers lose their jobs. With a record 8 million Americans looking for jobs, I'm left to wonder how many workers must lose their jobs before President Bush begins to seriously evaluate our nation's economic policies. In this regard, I look forward to hearing from Secretary Evans about any plans President Bush might have to spur job growth and put Americans back to work.

Thank you.

UNEMPLOYMENT—32nd DISTRICT

As of March 11, 2004

FEBRUARY 2004

CITY	UNEMPLOY. RATE	# of UNEMPLOYED	# of UNEMPLOYED (Jan. 2001)
Azusa	6.9%	1,540	1,280
Baldwin Park	7.0%	2,310	1,920
Covina	4.4%	1,100	910
Duarte	5.3%	570	480

UNEMPLOYMENT—32nd DISTRICT—Continued

As of March 11, 2004

FEBRUARY 2004

CITY	UNEMPLOY. RATE	# of UNEMPLOYED	# of UNEMPLOYED (Jan. 2001)
East Los Angeles	9.6%	5,160	4,800
El Monte	7.8%	3,900	3,240
Irwindale	5.8%	30	20
Rosemead	7.0%	1,700	1,410
South El Monte	9.6%	950	790
West Covina	4.1%	2,180	1,810
NATIONAL UNEMPLOYMENT RATE (FEB. 2004): 5.6%			

Source: State of California, Employment Development Department, March 11, 2004

Chairman BARTON. Without objection, so ordered.

Ms. SOLIS. Thank you.

Chairman BARTON. Does the gentleman from Tennessee wish to make an opening statement?

Mr. GORDON. Yes. Thank you, Mr. Chairman.

Chairman BARTON. The gentleman is recognized for 3 minutes.

Mr. GORDON. Mr. Secretary, thank you for being with us. I know that it is not particularly pleasant to sit here and be lectured to. But all of us go home, we see our friends, our neighbors, our constituents that are either out of work, but more likely they are underemployed rather than unemployed. And we see the pain that it really creates to these families.

And I know that you certainly would like to see a reversal of this loss of jobs, too. I mean, you do not wish anything bad on anybody. I know that. And that is why after the President unveiled his manufacturing initiative earlier this year I expected that the budget would contain some thoughtful new initiatives in this area.

Instead, the administration has proposed yet again to eliminate the Advanced Technology Program, and to slash the Manufacturing Extension Partnership—the only Federal programs explicitly designed to help manufacturers. And these are not wise proposals at a time when U.S. manufacturing is in crisis.

The ATP and MEP programs are effective tools for economic growth and job creation. They have provided thousands of small and medium firms across the Nation with technical assistance and business support services they need to compete globally. The Manufacturing Extension Partnership was selected by Harvard University, Institute of Government Administration, as one of the Nation's most creative, forward-thinking, result-driven government programs, yet the administration cut the MEP program by $72 million this year. And that is a 65 percent cut to a program that has helped small manufacturers create jobs.

The MEP is one of the few Federal programs that every Federal dollar leverages $2 additional in State and private sector funding. This is a unique partnership with local government and the private sector that works and keeps Americans working.

In FY2002, companies using MEP assistance reported $2.3 billion in sales, $681 million in cost savings, $940 million in investments and plant modernization, and 35,000 jobs as a result of their MEP projects. The return in the Federal investments of MEP centers is $4 in Federal tax revenues for every $1.

At a Science Committee hearing last summer, one small business manufacturer summed it up in a nutshell. Although tax—he said, "Although tax policies that encourage investment surely helps, it does not directly respond to what is happening." His recommendation: substantially expand ATP and MEP program. All of the other panelists agreed.

And, Mr. Secretary, let me tell you that this is a bipartisan feeling, at least on the Science Committee. We have jurisdiction of this program. We see that it works. The administration has zeroed it out the 2 previous years. Congress puts money back in because it is important. At least you allowed us, I guess, that same level, but it is a phaseout level.

Make no mistake about it. It is a phaseout level, and what is going to happen is it is going to undermine this network, and all 50 States that it has been set up. It is going to be like Humpty Dumpty.

Chairman BARTON. The gentleman's time has expired.

Mr. GORDON. Once that network has been undermined, you can't put it back together. I hope you will reconsider.

Chairman BARTON. Okay. Does any other member that has not had an opportunity wish to have a 3-minute opening statement? Seeing none, all members' opening statements will be made a part of the record.

[Additional statements submitted for the record follow:]

PREPARED STATEMENT OF HON. MICHAEL BILIRAKIS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. Chairman, thank you for holding this very important hearing on the state of industry in the United States. I also want to welcome Secretary Evans and to express my appreciation for his willingness to appear before this Committee to talk about issues impacting American businesses and consumers.

Mr. Chairman, I am pleased to see that the economy is recovering and new jobs are being created in the United States every week. The outlook today is better than it was a few years ago, and I want to commend President Bush, Secretary Evans, and my congressional colleagues for enacting policies which I believe have led to the growth in job creation and consumer spending and the drop in the rate of unemployment.

However, I am still very much concerned about maintaining the United States' competitiveness in the global marketplace and ensuring that America's businesses continue to grow.

Like many of my colleagues, I have heard from many constituents who have expressed very real concerns about the outsourcing of American jobs to overseas operations. They simply cannot understand—and I tend to agree with them—why companies are choosing to relocate jobs offshore when there are many Americans right here at home wanting to work and having difficulty finding gainful employment. Outsourcing doesn't make sense to them. I look forward to hearing what the Administration is doing and how Congress can act to encourage these companies to keep manufacturing and information technology jobs here in the United States.

As Chairman of the Health Subcommittee, I also am extremely concerned about the impact rising health care costs has on manufacturers and small businesses. This Committee and the House have recognized the importance of controlling rising health care costs by passing medical liability reform legislation and creating association health plans. Unfortunately, the Senate has not been able to address these issues.

I appreciate the Administration's support for reforming our nation's tort system, particularly as it relates to capping punitive damages for medical malpractice awards, and for creating association health plans. I am eager to hear from Secretary Evans what additional initiatives Congress and the Administration should undertake to further address the skyrocketing costs of health care.

I also have concerns about trade issues affecting the U.S. steel industry. For many years, I have been working hard with my colleagues in the Congressional Steel Cau-

cus to stem the tide of bankruptcies, layoffs, closures, and illegally imported steel. In reference to "The Presidential Determination on Steel" issued in December 2003, I am interested to hear what assurances Secretary Evans can offer regarding the expansion of the steel import monitoring and licensing system to include steel products that were not subject to 201 tariffs and quotas.

Mr. Chairman, these issues are important to my constituents and to the health of the American system of enterprise. We have made great strides in the past two years in growing our economy, but Congress and the Administration should do more to promote American goods and services and ensure that we maintain our country's advantage in worldwide markets. I look forward to hearing Secretary Evans' perspective on the issues I have raised today.

Thank you, Mr. Chairman.

PREPARED STATEMENT OF HON. CHARLIE NORWOOD, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF GEORGIA

Thank you Mr. Chairman. I want to extend a special welcome to Secretary Evans, we sure do appreciate you being with us today.

Let me start by saying I appreciate Chairman Barton holding this hearing today to focus on the state of our country's manufacturing industry. Many of our great manufacturers have roots in Georgia and I am proud to represent them. I have taken the time to sift through the Commerce Department's strategic plan to promote U.S. trade and the industry. For the most part I must say I am pleased with your suggestions, but I have some concerns that I'd like the Secretary to address.

Your report expresses the need to enforce trade agreements and combat unfair trade practices. I couldn't agree more, and let me just say that I have been extremely disappointed with the lack of action on a number of these unfair practices.

For starters, there's the problem of China manipulating their currency. The undervalued yuan has contributed to our trade deficit with China, which has risen from $30 billion in 1994 to an estimated $126 billion in 2003. It has also hurt U.S. production and employment in several U.S. manufacturing sectors, especially textiles, because they are forced to compete domestically and internationally against artificially low cost goods from China. Can we expect you to take action on this in 2004?

Strengthening the U.S. Patent system is also important and holding our trading partners to the same laws is also vital for our industries to grow. One case where that is not happening and could prove to be devastating if not fixed is with the rug and carpet industry. Again, another one of our great industries with strong roots in Georgia. The U.S. carpet industry produces 45% of the world's carpet and is a $12 billion per year presence at the mill level. Mills produce almost 2 billion square yards of carpet annually in 230 plants located across 21 states with a workforce in excess of 70,000 employees. In Georgia, 80% of this domestic industry is located within a 65-mile radius of Dalton.

Despite these robust numbers and significant economic footprint, the carpet and rug industry faces tremendous challenges from abroad. By far the most immediate problem facing the carpet and rug industry is the theft of intellectual property rights, primarily from China and India. Can we expect you to take action on this in 2004?

Mr. Secretary, you will be receiving a letter shortly signed by many members of the Georgia delegation asking you, in conjunction with the U.S. Trade Representative, to give a renewed priority to intellectual property theft in the context of the upcoming DOHA Trade Round and as additional bilateral or regional trade agreements are pursued by the government.

I also have grave concerns about outsourcing. And my concerns came long before "60 Minutes" reported that credit card companies moved their telephone banks to India. I want to hear from you that we insource more than we outsource.

There is much more I could say about trade, but let me change subjects for just a moment and make a comment on your health care suggestions. Mr. Secretary, I know you support AHPs. I could be convinced to support AHPs; all you have to do is fix them so AHPs can't discriminate against sick people.

With that Mr. Chairman I thank you for the time and will yield back.

PREPARED STATEMENT OF HON. BARBARA CUBIN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WYOMING

I'm pleased that Secretary Evans has joined us today to discuss the state of U.S. industry. You know as well as I, Mr. Secretary, that there isn't an area of this coun-

try that doesn't feel the impact of the Commerce Department. From telecommunications and trade to patents and economic development, the proper stewardship of this department is crucial to a strong America.

That's why I appreciate your coming before the Committee today. There are a lot of allegations swirling about in a presidential election regarding jobs, the economy, and just who deserves the credit or blame for any—or all—of it. During your testimony I would appreciate your assessment of these allegations, and make certain that policy debates, especially those surrounding an election, are factually based. Like my friend from Wyoming, former Senator Al Simpson, says, "a charge unanswered is a charge believed."

I would also appreciate your comments about the Manufacturing Extension Partnership (MEP). I know it was covered in the *Manufacturing in America* report the Department of Commerce published in January, but I would like to get a better handle on what the Administration is proposing absent this important funding.

I can tell you that I was visiting with several small manufacturers from Wyoming last week, and to a man they explained how the MEP program benefitted their companies and provided jobs and revenue to their communities and the state. After all, Wyoming isn't home to manufacturers like Boeing or General Motors, but rather folks filled with the Wyoming "can do" spirit who find a special niche or have an innovative idea, but lack the capital to bring it to market, or produce it more efficiently.

I thank you in advance for delving into these matters and look forward to hearing what you in the Administration and we in Congress can do to keep a steady hand on the wheel and not pursue disincentives to further economic growth.

I yield back the balance of my time.

PREPARED STATEMENT OF HON. MIKE ROGERS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. Secretary, thank you for taking the time to meet with us today. I know that the title of today's hearing is "The State of U.S. Industry", but I would suggest that Jobs, Jobs, Jobs would also be an apt title.

In Washington we do a funny thing. We say that jobs are an issue, but then when it comes time to debate a piece of legislation we rarely talk about jobs. Instead we say, this is not a jobs bill, this is an energy bill. We say this is not a debate about jobs, this is a debate about tort reform. Rarely is the question asked, how can we help someone who wants work find it.

Mr. Secretary, you have asked that question, and you know the answer. You know that taxation, regulation, litigation, and health care costs are killing American jobs. You know that these issues are not separate conversations; they are all part of one debate about the future of a competitive American worker. You know that if American workers and American manufacturing are going to compete in a world market than we will have to tackle all of these things.

Mr. Secretary, some people will disagree with you. They will say that wages are the only thing causing us to be uncompetitive. Mr. Secretary, their argument is a Trojan horse. It allows them to hide from real issues, over which they could really have an effect.

And so, Mr. Secretary, before my colleagues give up on the American worker, before they embrace protectionism and make-work government jobs, I would ask them, has Congress done all it can do? Have we lifted the weights being placed on the backs of American workers? What have we done to tame the gang of regulators trying to shut down factories? What have we done to slow the pack of lawyers milling around job sites encouraging someone to sue?

Mr. Secretary, you are trying to do something. For that I thank you, and I look forward to working with you on behalf American Industry, and American jobs.

PREPARED STATEMENT OF HON. JOHN SHIMKUS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Good morning. Thank you Mr. Chairman for holding this hearing regarding the State of the U.S. Industry with Secretary Evans. I look forward to hearing Secretary Evans statements on how the U.S Industry is performing.

I would like to start out by thanking Secretary Evans for taking time to come before the committee and I appreciate his leadership. I would also like to extend my thanks to the Secretary for the creation of a DOT KIDS website through the National Oceanic and Atmospheric Administration or NOAA. I am always happy to see another Dot kids website created. As many of us know, Dot kids is a wonderful re-

source for our children to have, so they can safely look on the internet without the danger of inappropriate sites.

Next I would like to focus on manufacturing. In my District alone there are some 500 manufacturers. Companies like Continental Tires and Hella North America, who was in the hearing last week, are doing good things and creating and maintaining jobs. A lot of these small to medium sized manufacturers rely on Manufacturing Extension Partnerships (MEPs). MEPs have helped create many success stories throughout Illinois and the rest of the country and I appreciate all the help they give manufacturers.

Even with the guidance of the MEPs there still has been job loss and I look directly at the high energy prices and some of our state tax proposals on trucking and natural gas to be the reason for this job loss. An estimated 85,000 jobs have been lost by US chemical makers since natural gas prices began to rise in mid-2000. If we can't get natural gas at an affordable price, more and more of our production facilities will be forced to pack up and leave the country. According to the US Department of Commerce, America loses 12,389 jobs for every billion we spend on imports. At today's oil prices, that means America is sending more than 1.7 million jobs overseas every year. In 2003 alone, the US sent more than $100 billion overseas to import oil from foreign nations. The energy bill will help create or maintain over 156,738 full-time and part-time jobs in Illinois alone. Those are hard numbers to argue with.

I am very interested to hear the testimony of Secretary Evans and look forward to working with him in the future. I yield back the remainder of my time.

PREPARED STATEMENT OF HON. MIKE ROGERS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. Secretary, thank you for taking the time to meet with us today. I know that the title of today's hearing is "The State of U.S. Industry", but I would suggest that Jobs, Jobs, Jobs would also be an apt title.

In Washington we do a funny thing. We say that jobs are an issue, but then when it comes time to debate a piece of legislation we rarely talk about jobs. Instead we say, this is not a jobs bill, this is an energy bill. We say this is not a debate about jobs, this is a debate about tort reform. Rarely is the question asked, how can we help someone who wants work find it.

Mr. Secretary, you have asked that question, and you know the answer. You know that taxation, regulation, litigation, and health care costs are killing American jobs. You know that these issues are not separate conversations; they are all part of one debate about the future of a competitive American worker. You know that if American workers and American manufacturing are going to compete in a world market than we will have to tackle all of these things.

Mr. Secretary, some people will disagree with you. They will say that wages are the only thing causing us to be uncompetitive. Mr. Secretary, their argument is a Trojan horse. It allows them to hide from real issues, over which they could really have an effect.

And so, Mr. Secretary, before my colleagues give up on the American worker, before they embrace protectionism and make-work government jobs, I would ask them, has Congress done all it can do? Have we lifted the weights being placed on the backs of American workers? What have we done to tame the gang of regulators trying to shut down factories? What have we done to slow the pack of lawyers milling around job sites encouraging someone to sue?

Mr. Secretary, you are trying to do something. For that I thank you, and I look forward to working with you on behalf American Industry, and American jobs.

PREPARED STATEMENT OF HON. C.L. "BUTCH" OTTER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IDAHO

Thank you, Mr. Chairman, for conducting this hearing on such a timely issue.

As the economy recovers, it's more important than ever that Congress works to create a climate for businesses large and small to thrive. Job growth depends on it. This administration already has made great strides toward improving the business climate here in the United States. The tax relief initiatives of 2001 and 2003 were essential to setting the stage for job creation, and they need to be made permanent.

Over the past year we have watched the robust impact of tax relief on our nation's economy. Yet despite the record growth rate of 2003, too many Americans are still pounding the pavement in search of a job rather than earning an income for their

family. We hear a lot these days about how American jobs are being moved overseas. What many people fail to see, however, is the inhospitable business environment here in the United States that's led to some of those moves.

How can we expect America's bright and successful entrepreneurs to keep their enterprises here at home when we burden them with over-regulation and the world's only double-taxation on corporate income? The exportation of American jobs is the fault not of savvy American corporations but of an unfriendly corporate tax system and overzealous bureaucracy.

We all want a clean environment and a safe work place, but a one-size-fits-all, top-down regulatory approach isn't the way to get there. America is a nation with vast natural resources. But our government-knows-best approach has turned us into a country importing more and more of its minerals, watching its forests burn while importing logs to build homes, and losing good, high-paying jobs in rural areas to foreign countries that recognize the importance of a domestic natural resources industry.

Our failure to enact a national Energy Policy is another reason we're exporting American jobs. Rather than drilling for oil and gas on our public lands, we're becoming more dependent on foreign energy sources. America's energy production jobs are being sent oversees, which increases energy prices, reduces the stability of supply and increases the cost of doing business here at home. At the same time, our failure to address energy infrastructure concerns inhibits potential growth and threatens more of the kind of devastating blackouts we experienced last summer, with the attendant economic consequences.

An abundant and reliable energy supply is an absolute necessity for America's continued economic recovery. The Energy Policy Act approved by the House last year would go a long way toward achieving that goal.

I'd like to welcome Secretary Evans to the Committee and I look forward to hearing his views on the state of U.S. Industry. Thank you Mr. Chairman.

PREPARED STATEMENT OF HON. JOHN SULLIVAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OKLAHOMA

Thank you, Chairman. Thank you for calling this most important hearing. Secretary Evans, thank you for coming to share the state of U.S. industry with the Committee. As we all know, the state of the U.S. manufacturing sector is in a precarious state. In my district alone, we have lost 1,700 manufacturing jobs in the last year. However, the economy is on the rebound.

A recent survey of U.S. manufacturers found that far more manufacturers are planning to add jobs, than to cut them. This year is forecast to be the biggest increase in production since 1999, according to the National Association of Manufacturers.

We need to create the conditions for economic growth and manufacturing investment. Nobody knows better than the manufacturers themselves about what needs to happen to bolster the sector. A recent report sponsored by American manufacturers clarified that many of these proposals were necessary to further economic growth:

- Making the tax cuts permanent
- Making health care costs more affordable for families and small businesses;
- Reducing frivolous and junk lawsuits;
- Making Federal regulations less burdensome on small businesses;
- Enacting a national energy policy that ensures a more affordable and reliable supply of energy, and makes us less dependent on foreign energy sources; and
- Opening foreign markets to American products and services

I would like to submit this study for the record.

According to the ISM survey released this month, manufacturing purchasing managers reported expanding employment for the fourth consecutive month in February.

We must lower the cost of manufacturing in the United States. Through AHP's we can lower health care costs for small manufacturers. I believe we should conduct a regulatory review. Inventory existing regulations, evaluate and implement reforms, and review the act of new rules. It is also critical that we enact energy legislation. We must increase the reliability and affordability of electricity, facilitate adequate and economical supplies of natural gas, and encourage further research and development in new energy technology.

I have consistently supported the manufacturing sector and will continue to do so.

Manufacturing is a cornerstone of the American economy. Approximately one out of every five factory jobs is due to manufacturing exports. Some today would like

to play politics with this issue rather than take a hard look at what we need to accomplish. People's jobs and livelihoods are at issue; let's take an honest look at how we can improve the situation. We have started to give manufacturing the tools it needs to survive AND thrive, including AHP's, tax credits, and trying to reduce the bureaucratic burden on manufacturers. Now we need to finish the job.

I yield back.

How Structural Costs Imposed on U.S. Manufacturers Harm Workers and Threaten Competitiveness

by
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Prepared for The Manufacturing Institute of the
National Association of Manufacturers

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How Structural Costs Imposed on U.S. Manufacturers Harm Workers and Threaten Competitiveness

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How Structural Costs Imposed on U.S. Manufacturers Harm Workers and Threaten Competitiveness

FOREWORD

St. Louis-based Emerson has been a long-time member of the NAM and a supporter of The Manufacturing Institute's work. Emerson (www.gotoemerson.com) is a global leader in bringing technology and engineering together to provide innovative solutions to customers in electronics and telecommunications; process control; industrial automation; heating, ventilating, and air conditioning; appliances and tools. Sales in fiscal 2003 were $14 billion.

During this period of crisis in our nation's manufacturing sector, Emerson is pleased to sponsor Jeremy Leonard's paper, *How Structural Costs Imposed on U.S. Manufacturers Harm Workers and Threaten Competitiveness.* We believe that this thoughtful study based on fact, not rhetoric, clearly identifies the issues that must be addressed if this country is to stem the decline of its critical industrial base.

By now it is no secret that the United States has lost 2.8 million manufacturing jobs over the past three years and that, unlike previous recessions, job losses have continued long after the bottom was reached and output began growing again. Something has clearly changed.

At Emerson we are concerned with this change because, while we are a global company, over half of our revenues are still in the United States. If the long-term health of this economy is threatened, then so are we. As Joel Popkin pointed out in a companion paper, *Securing America's Future: The Case for a Strong Manufacturing Base,* economies whose manufacturing sectors are not vibrant and growing are doomed to low overall growth. Those who call for a conversion to a service-based economy need only look at Japan and Germany to get a glimpse of the consequences of manufacturing's decline – not a pretty picture, and not one we want to see in this country.

U. S. manufacturing has demonstrated the ability to overcome pure wage differentials with trading partners through innovation, capital investment and productivity. But when the structural cost multipliers Leonard describes in this paper are piled on, the task becomes unmanageable even for best-in-class companies. Concerted effort to get our state and federal legislators to focus on addressing and removing these penalties will yield positive results for the entire economy. It is clear that self-imposed cost penalties are the most important consideration in our competitiveness; it is critical that we move forward and get our own house in order and avoid at all costs the destructive path of protectionist tariff-based responses.

James G. Berges
President

EMERSON

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How Structural Costs Imposed on U.S. Manufacturers Harm Workers and Threaten Competitiveness

INTRODUCTION

By Jerry Jasinowski and Tom Duesterberg

It is relatively easy to identify some of the short-term causes of the severe downturn that has hit U.S.-based manufacturing over the past three years. While recent, rising GDP growth signals that general cyclical conditions are improving, manufacturing continues to lag the overall recovery. The lack of export growth and substantial new capital investment until now explains why the manufacturing recovery to date has been the slowest on record. But the more fundamental concern for manufacturers is a set of structural disadvantages that are eroding U.S. competitiveness and offsetting much of the recent productivity gains spawned by innovation and relentless corporate cost cutting.

This report breaks new ground in documenting those underlying structural costs that are slowly eating away at the ability of U.S. manufacturers to compete effectively. ***While manufacturers have many challenges in the current global environment, it is the finding of this report that domestically imposed costs—by omission or commission of federal, state, and local governments—are damaging manufacturing more than any foreign competitor and adding at least 22.4 percent to the cost of doing business from the United States. Such internal costs impose a larger burden on U.S. manufacturers than the strong dollar.***

Why should this nation care about a strong manufacturing base? The main reason is that during the boom of the 1990s, manufacturers in the United States contributed 22 percent of the economic growth and increased its share of total value added in the U.S. economy. Moreover, manufacturing is the source of much of the innovation and productivity growth of the last two decades, which underpins our success in international markets, helps drive productivity growth in the services sector, provides high quality jobs, and raises the standard of living throughout the United States. We should also never lose sight of the importance of the domestic technical prowess and production excellence, which are crucial to our national security. As job creation and strong investment have lagged historical patterns of recovery in the United States during 2003, it is clearer than ever before that getting manufacturing back on its feet is an important part of the formula for a full recovery.

We undertook this report because U.S. manufacturers' position in global trade has deteriorated, despite years of investment and operational streamlining:

- Import penetration of the U.S. market has risen markedly since 1980, advancing from 23 percent of sectoral GDP to over 67 percent in 2002.
- Over the past five years, U.S. export penetration has declined, falling from over 12 percent of global merchandise trade in 1998 to 10.7 percent in 2002.
- This intense global competition means that manufacturers—which account for three quarters of total U.S. trade—cannot raise prices and find themselves caught in a cost-price squeeze, making any new incremental costs nearly impossible to pass on.
- Nearly 2.8 million jobs have been lost in manufacturing over the past 39 months.
- Capital investment outside of information technology remains sluggish.

This report takes a close look at those costs—corporate tax rates, employee benefits, tort litigation, regulatory compliance and energy—and finds that they add a conservatively estimated 22.4 percent to the price of production for U.S. firms, relative to major foreign competitors. Once these underlying cost pressures are understood, it becomes clearer why much of U.S. production is moving offshore.

The study establishes a raw cost index benchmark based on wage compensation relative to total value added in manufacturing, comparing the United States and nine major trading partners including Canada,

China, and Mexico. The analysis demonstrates how even nominally more expensive locations such as Canada or the United Kingdom are, in fact, lower-cost locations for production when these expensive cost factors are weighed. Even more startling is that the added costs in the United States are nearly as high as the total production costs in China.

Moreover, we believe this report significantly understates the costs imposed on U.S.-based manufacturers, especially in assessing the impact of legal and regulatory costs. Reliable data on tort costs and regulatory compliance are not available for many developing countries and this study has not attributed a cost where there is not a good data source. We expect to follow up with additional cost studies that focus on these areas as well as update the data.

These rising domestic cost pressures are even more important at a time when intense global competition and the resulting deflation in producer prices makes growth in top-line income all but impossible. The result has been a steady decline in the cash flow of manufacturing firms. If ever there were a wake-up call for U.S. policymakers about the costs they continue to impose on U.S. manufacturers, this is it.

There is a wide range of policy steps that federal and state governments should immediately take to support stronger U.S. manufacturing. This report highlights the policies that would make the most difference. We encourage elected officials to begin shaping a pro-manufacturing agenda for the near future.

The loss of a strong manufacturing base will have unfortunate consequences for the U.S. standard of living as well as national security. We urge all Americans who are concerned about the future of our country to read this report and help foster a new appreciation for manufacturing in Washington, D.C., and all 50 state capitals.

We would like to thank Emerson for supporting this study and providing valuable insights to its analysis. We also commend the author, Jeremy Leonard, economic consultant to the Manufacturers Alliance/MAPI, for his creativity in distilling huge amounts of sometimes disparate data to complete this project.

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National Association of Manufacturers

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Manufacturers Alliance/MAPI

How Structural Costs Imposed on U.S. Manufacturers Harm Workers and Threaten Competitiveness

Executive Summary

The U.S. manufacturing sector in the late 1990s was at the top of its game. Two decades of renewal, innovation, capital deepening, and management improvement had borne impressive fruit: A remarkable acceleration in productivity growth and rapid innovation, combined with modest employment growth, returned the manufacturing sector to its historical role as the engine of U.S. economic growth.

In spite of this renaissance, it now finds itself struggling with a painfully sluggish recovery and eroding competitiveness in export markets. The inescapable conclusion is that structural factors outside of manufacturers' direct control are eroding the leadership position that U.S. manufacturers have worked so hard to achieve.

The raw competitive position of U.S. manufacturing relative to its major trading partners (as represented by unit wage costs measured in home currencies) has improved substantially, largely because domestic unit labor costs declined while those of many trading partners rose considerably. As of 2002, unit labor costs in U.S. manufacturing industries were lower than four of the nine largest U.S. trading partners and only marginally higher than three others.

Despite this return to apparent competitive preeminence, the position of U.S. manufacturers in global trade has shown a marked deterioration, especially in the last five years. Since 1997, exports as a percent of gross domestic product (GDP) have stagnated, while import penetration has risen sharply, largely due to growing trade with Mexico and China. As a result, the trade deficit ballooned from $31 billion in 1991 (0.5 percent of GDP) to $418 billion (5.0 percent of GDP) in 2002. Furthermore, international competition caused producer prices to stagnate (or even decline for some industries). In the context of strong demand, this would normally cause cash flow growth to decelerate somewhat. In fact, aggregate manufacturing cash flow actually ***declined*** in absolute dollar terms from 1997 to 2000, the three strongest years of the 1990s expansion, indicating that costs were rising more rapidly than revenues.

Against this backdrop, the industry downturn that began in June 2000 was a rude awakening. From June 2000 to December 2001 (the trough month for manufacturing production in the latest recession), manufacturing lost 1.6 million jobs and production declined by 7.2 percent. Both of these declines were mild by post-World War II historical standards; only the 1990-1991 recession was milder.

Had December 2001 been the end of the story, the downturn might have been nothing more than a bump on an otherwise prosperous road. But the ensuing recovery since then has been far short of expectations and significantly weaker than in past recovery periods. Manufacturers have shed nearly 1.2 million additional jobs and production has increased by just 2.1 percent. Such trends immediately following a recession are unprecedented in post-World War II history. Even during the "jobless recovery" from the 1990-1991 recession, manufacturing employment contracted by only 400,000 additional jobs before growing again, and production grew by an average of 4.5 percent per year.

That the U.S. manufacturing sector, which has spent the better part of two decades remaking itself into the envy of the world, now finds itself mired in a slow recovery leads to the inescapable conclusion that cost pressures outside manufacturers' direct control have conspired to threaten the U.S. manufacturing leadership. This report will, to the extent that data permit, quantify the most critical obstacles:

- Excessive corporate taxation.
- Escalating costs of health and pension benefits.
- Escalating costs of actual or threatened tort litigation.
- Escalating compliance costs for regulatory mandates, particularly those related to workplace safety, pollution abatement, and corporate governance.
- Rising energy costs, particularly natural gas.

Table 1 summarizes the quantitative results of this report, which will be developed and discussed in detail in later sections. The first row shows the "raw cost index" of manufacturers, which is simply total wage compensation (excluding employee benefits) divided by value-added in manufacturing. In order to abstract from exchange rate fluctuations during the 1990s, the index for each country is measured from a 1990 benchmark and "inflated" by the growth in unit wage costs in the appropriate home currency from 1990 to 2002. (For more detail on construction of the index, please refer to the Appendix.) This is the most basic measure of the competitive posture of a given manufacturing sector. As explained in a later section, it takes into account international differences in

Table 1
Effect of Key "Overhead Costs" on Raw Cost Index of Nine Largest U.S. Trading Partners, 2002
(U.S. dollars per hour)

	United States	Average of nine partners	Canada	Mexico	Japan	China	Germany	United Kingdom	South Korea	Taiwan	France
Raw cost index	**24.30**	**19.30**	**27.57**	**8.11**	**16.92**	**5.34**	**29.60**	**28.30**	**23.96**	**16.41**	**26.50**
Difference relative to U.S. costs in percent											
Corporate tax rate	–	-5.6%	-3.4%	-6.0%	2.0%	-15.0%	-0.4%	-10.0%	-10.3%	-15.0%	-5.7%
Employee benefits	–	-5.5%	-4.8%	-9.4%	-9.4%	-12.6%	3.6%	-5.1%	9.0%	-11.5%	10.7%
Tort costs	–	-3.2%	-3.1%	N/A	-3.3%	N/A	-0.7%	-3.4%	N/A	N/A	-1.3%
Natural gas costs	–	-0.5%	-6.0%	-2.3%	12.5%	-2.3%	0.6%	2.1%	4.1%	15.3%	-4.2%
Pollution abatement	–	-3.5%	-2.8%	N/A	-2.3%	N/A	-2.4%	-3.0%	N/A	N/A	-1.5%
Manufacturing production costs relative to the United States accounting for differences in overhead costs (dollars per hour)											
Effective cost index	**24.30**	**16.02**	**22.46**	**6.19**	**16.64**	**3.50**	**29.77**	**23.14**	**22.67**	**12.85**	**25.77**

Source: Author's calculations based on data in subsequent tables and charts

Note: Data for tort costs and regulatory compliance costs are limited to the industrialized partners. Conservative assumptions have been made in estimating the missing values, as described in later sections. Thus, the absence of these data likely understates the overall cost advantage of U.S. trading partners.

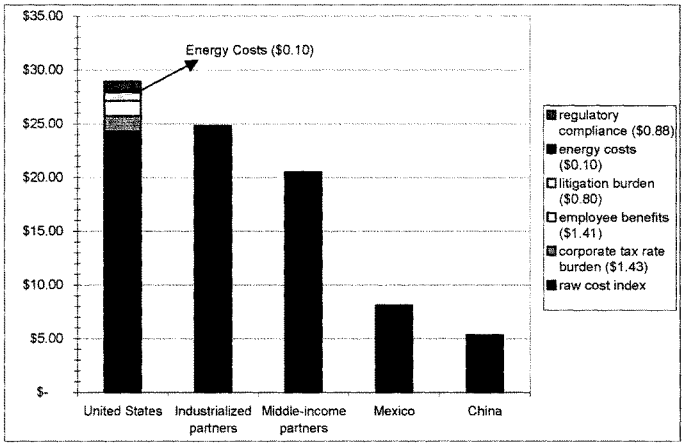
productivity, capital intensity, and raw material costs and thus indirectly measures the efficiency with which manufacturers use their nonlabor inputs in the production process. The United States is fairly well-positioned, with lower costs than in Canada, France, Germany, and the United Kingdom and a bit higher than in Japan and Taiwan. Perhaps surprisingly to some readers, South Korea's rapid industrialization has pushed up its raw cost index too close to U.S. levels. Finally, as is well-known, lower wages in Mexico and China give those countries a considerable edge in terms of the raw cost index.

External overhead costs add at least 22.4 percent to unit labor costs of U.S. manufacturers (nearly $5 per hour worked) relative to their major foreign competitors.

Once the effect of corporate tax differentials, employee benefits, tort costs, energy costs, and regulatory compliance are accounted for, the competitive picture becomes much more ominous for the U.S. manufacturing sector, as the last row of Table 1 demonstrates. Canada (the largest U.S. trading partner) gains a substantial cost advantage, and the U.S. cost advantage relative to the United Kingdom disappears altogether. Furthermore, the relative costs of developing partners—Mexico, China, South Korea and Taiwan—drop considerably. U.S. manufacturers are at a cost disadvantage nearly across the board with respect to corporate tax rate differentials, employee benefits, and litigation costs. The United States enjoys a large advantage in energy costs with regard to Japan, South Korea, and Taiwan. Nevertheless, recent spikes in natural gas prices have disproportionately affected U.S. manufacturers that have become more reliant on that fuel. As will be discussed later, the United States, should be able to exploit its gas reserves—one of the world's largest—to give it a competitive edge over other major trading partners.

A different—and perhaps more concise—way to express the country-by-country data in Table 1 is as a burden to U.S. manufacturing costs. This is done in Chart 1 by aggregating the cost ***advantages*** of the nine largest U.S. trading partners (weighted by their respective trade shares) and "inverting" them into the equivalent U.S. cost ***burden***. Chart 1 shows that ***external overhead costs add at least 22.4 percent to unit labor costs of U.S. manufacturers (nearly $5 per***

Chart 1
Excess Burden of "Overhead Costs" on U.S. Manufacturers Relative to Major Trading Partners, 2002
(U.S. dollars per hour worked)



Source: Author's calculations based on data in subsequent tables and charts

Note: In this chart, external costs shared across countries are included in the raw cost index (see footnote 1).

hour worked) relative to their major foreign competitors.[1] The largest burden comes from high corporate tax rates and employee benefits, with smaller but substantial burdens caused by litigation costs and regulatory compliance. This excess burden puts the United States at a substantial competitive disadvantage with its largest industrial trading partners (Canada, Japan, Germany, the United Kingdom, and France); absent these extra costs, the United States would compete on an even playing field.

External overhead costs on U.S. manufacturers are almost as large as total manufacturing costs in China.

Of equal, if not greater, concern is the fact that ***the absolute value of the excess cost burden on U.S. manufacturers (nearly $5 per hour) is almost as large as the total raw cost index for China*** (see row 1 of Table 1).

Taken together, external overhead costs have offset a large part of the 54 percent increase in productivity wrought since 1990. As a result, U.S. manufacturers are at a serious disadvantage in global markets, despite being fundamentally competitive in terms of labor costs and value-added.

To prevent further deterioration of the competitive position of U.S. manufacturing in the global economy, policymakers must take immediate and decisive action on a number of fronts (discussed in more detail at the end of the report) to reduce the external overhead costs that have been imposed in the last decade:

- Reduce the corporate tax burden and reform the treatment of foreign-source income.

[1] It is important to emphasize that this summary chart shows the ***relative***, not absolute, burden of external "overhead costs." For instance, the total cost of employee health and pension benefits in U.S. manufacturing industries was about $3.90 per hour in 2001. The relative burden shown in Chart 1 is $1.41. This reflects the fact that manufacturers in other countries also face benefit costs, though to a lesser extent than their U.S. counterparts.

- Reduce the burden of rising health coverage costs and encourage greater consumer responsibility for health status and coverage costs.
- Reform rules for funding pension plans to avoid devastating cyclical swings in funding requirements.
- Undertake serious legal reform, such as curtailing frivolous lawsuits, placing large, nationwide class action lawsuits in federal court, and negotiating fair and equitable compensation to legitimate asbestos claims.
- Establish a more objective cost-benefit review process for proposed and existing regulations that takes full account of adverse business impacts.
- Adopt changes in land-use regulations that allow access to undeveloped domestic natural gas reserves.

The Paradox of U.S. Manufacturing: Productivity and Innovation Leadership Amid Deteriorating International Competitiveness

Productivity and Innovation Leadership

Over the past two decades (and especially since 1990), the U.S. manufacturing sector has undergone a startling renaissance characterized by strong capital investment, accelerating productivity growth, and innovation leadership.[2] During the 1990s expansion, manufacturing output accounted for 22 percent of GDP growth, more than manufacturing's 17 percent share of the overall economy. U.S. manufacturing productivity growth accelerated to 4.5 percent per year from 1995 to 2000, outpacing its industrialized trading partners by a significant margin. In fact, trend productivity growth in the 1990s was higher than in any previous post-World War II expansion.[3] This resulted from an investment boom, particularly in information technology equipment. Use of this equipment and associated management improvements began to fan out to other sectors of the economy, more than doubling trend productivity growth in nonmanufacturing industries. As a result, living standards in the United States—already the highest in the world—began to pull away from Western Europe, Canada, and Japan, reversing the tendency towards convergence experienced in prior decades.

Manufacturing is the engine of innovation. In addition to generating 90 percent of new patent approvals, it accounted for 90 percent of business research and development (R&D) in the 1980s and more than 75 percent through most of the 1990s (the drop reflected large R&D investments by the wholesale trade, computer system design, and engineering services sectors, all of which are closely aligned with manufacturing). Manufacturing's R&D share has fallen to just over 60 percent since 1997, in large part due to the cost pressures described in this report.

Trends in International Trade

International trade trends have shifted sharply to the detriment of U.S. manufacturers in spite of the productivity renaissance. The U.S. share of world manufactured exports increased from 12.1 percent to 14 percent in the early 1990s, but has declined sharply in the last five years. Over the same period, import penetration has jumped alarmingly. Much of this penetration is by newly industrializing countries, which are rapidly moving into high value-added markets such as transportation equipment, industrial machinery, and electrical and electronic equipment that historically have been dominated by industrialized nations. Increasing global competition also has brought about a soft pricing environment, which has squeezed cash flow and brought the issue of production costs to the forefront.

Since 1980, the value of world trade has more than tripled, reaching $6.5 trillion in 2002. As of 2001 (the most recent year for which regional data are available), 46 percent of total trade occurred within the three major industrialized regions of the world: North America (excluding Mexico), Western Europe, and Japan. This reflects a decrease from the 49 percent registered in 1993 but an increase from the 42 percent recorded in 1983.

This apparent trade stability hides major changes in U.S. trade patterns over the past two decades, particularly with respect to imports. The trade sector has grown rapidly relative to the rest of the economy, particularly during the strong economic expansion of the 1990s. Over the same period, nations other than Canada, Western Europe, and Japan have become important players in U.S. trade.

Chart 2 shows U.S. imports and exports as a percent of GDP since 1960. In the era of fixed exchange rates prior to 1973, imports and exports each hovered between 4 percent and 6 percent of GDP. After that, the U.S. economy opened up rapidly to world markets, the trade share of GDP doubled by 1980. The 1980s saw a significant dip in exports brought on by the unusually strong U.S. dollar, while imports hovered at around 10 percent of GDP. Strong growth in imports in the 1990s, coupled with erratic export demand, caused a wide trade deficit to develop.

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[2] For a detailed analysis of U.S. manufacturing leadership, see Thomas J. Duesterberg and Ernest H. Preeg, eds., *U.S. Manufacturing: The Engine for Growth in a Global Economy* (Westport, CT: Greenwood Press, 2003).

[3] Jeremy A. Leonard, "The Productivity Acceleration Is Here To Stay," Manufacturers Alliance/MAPI, ER-556e, June 2003.

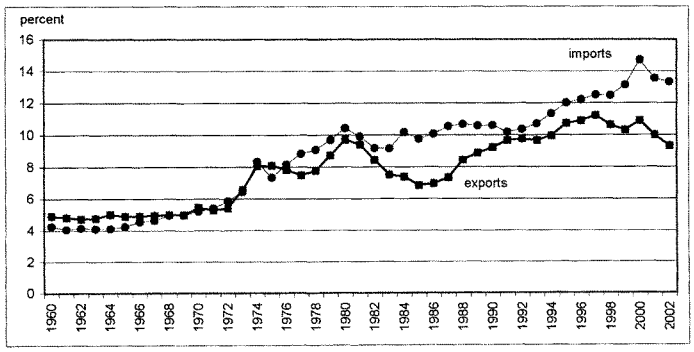
The overall numbers mask startling developments in the manufacturing sector, which accounts for nearly 75 percent of total trade. An important point that cannot be emphasized too strongly is that ***the manufacturing sector is responsible for the entire 1990s increase in import penetration***. Chart 3 breaks down total trade into its manufactured goods and service components, each expressed as a percentage of the relevant sectoral GDP. It reveals that import penetration soared to a record 67.3 percent of manufacturing GDP in 2002. This growth far outstripped growth in manufacturing exports, opening a manufacturing trade deficit on the order of 25 percent of manufacturing GDP. Service sector exposure to world markets remains marginal by comparison. By 2002, exports accounted for 3.9 percent of service sector GDP and imports for 3.3 percent, resulting in a small trade surplus in services. Much of service sector trade is connected with tourism to the United States (exports) and U.S. tourism elsewhere in the world (imports).

The geographic distribution of U.S. exports and imports also has changed considerably since 1990, as Table 2 shows. Developing nations now account for 37 percent of U.S. exports and 41.7 percent of U.S. imports, each a significantly higher share than in 1990. A vivid illustration of the growing competitive pressures on U.S. manufacturers in the developing world is the explosive growth in imports originating from Mexico (from 6.0 percent to 12.3 percent of imports) and China (from 3.1 percent to 11.4 percent of imports). In addition, while the import share of Southeast Asian nations declined somewhat, it is now larger than that of Japan.

This report will focus on the nine largest U.S. trading partners, which are shown in Table 3. Canada and Mexico together account for nearly one-third of U.S. trade, due both to geographic proximity and the adoption of the North American Free Trade Agreement in 1994. Other major players include Japan and China (9.4 percent and 8.0 percent of trade, respectively), and the three largest European economies, which account for 11.4 percent.

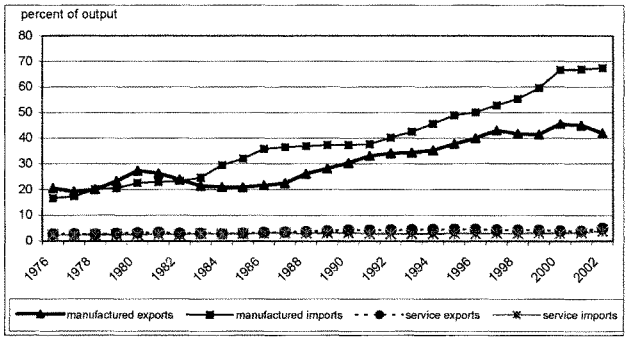
A common misperception is that most of the trade from developing nations is accounted for by textiles, clothing, footwear, and other traditionally labor-intensive products that often do not directly compete with products manufactured by U.S.-based companies (either because their quality is inferior to similar U.S. products or because U.S. producers have exited the relevant markets). While this may have been the case 10 or 20 years ago, nothing could be further from the truth today. As Table 4 demonstrates, all four of the top U.S. developing country traders are orienting themselves toward high-end manufactured goods such as industrial machinery, telecom equipment and office machines, and transportation equipment.

Chart 2
U.S. Exports and Imports, 1960-2002
(percent of GDP)



Source: U.S. Department of Commerce

Chart 3
U.S. Trade in Manufactured Goods and Services, 1976-2002
(percent of manufacturing and service sector GDP)



Source: U.S. Department of Commerce, International Trade Administration

Table 2
Geographic Distribution of U.S. Exports and Imports, 1990 and 2002
(percent of total)

	Exports		*Imports*	
	1990	**2002**	**1990**	**2002**
Canada	21.1	24.6	18.1	19.1
European Union	26.3	22.0	20.0	20.6
Japan	12.3	7.9	18.2	11.1
Other Advanced Economies	3.4	3.2	2.4	2.0
Total Advanced	**63.1**	**57.6**	**58.7**	**52.7**
Mexico	7.2	14.9	6.0	12.3
China	1.2	3.4	3.1	11.4
Southeast Asia	9.4	11.1	15.8	13.8
Other Developing Economies	12.0	7.6	11.3	4.3
Total Developing	**29.9**	**37.0**	**36.1**	**41.7**
Unclassified	7	5.4	5.2	5.6

Source: World Trade Organization (1990) and U.S. Bureau of the Census (2002)

Note: Southeast Asia includes Taiwan, South Korea, Hong Kong, Singapore, Malaysia, Philippines, Thailand, and Indonesia.

Deflationary Pricing Environment Is Squeezing Cash Flow

U.S. manufacturers have faced a soft pricing environment both at home and abroad since the mid-1990s. Domestically, there is considerable excess manufacturing capacity due to high levels of capital investment in the late 1990s; as a result, the production base is more than enough to accommodate demand, which itself is growing slowly. In addition, the transition of countries with low labor costs into higher value-added product groups further depresses prices. The inability to raise prices puts greater pressure on manufacturers to improve productivity and cut costs; if they do not, profitability will perforce deteriorate.

Chart 4 shows trends in the producer price index for manufacturing production as well as the export price index for industrial supplies. Prices for exported industrial supplies have firmed up somewhat in 2003, but are essentially unchanged relative to 1995. Producer prices for manufacturers have fared somewhat better, but have risen by only 7 percent since 1996. The overall price level, as measured by the consumer price index, has risen more than 40 percent since 1990.

Table 3
Top Trading Partners of the United States, 2002
(imports plus exports in billions of dollars and as a percent of total)

	$Billion	Percent of Total
Canada	371.39	20.1
Mexico	232.26	12.6
Japan	172.93	9.4
China	147.22	8.0
Germany	89.11	4.8
United Kingdom	74.12	4.0
South Korea	58.17	3.2
Taiwan	50.59	2.7
France	47.43	2.6
Total	**1,243.22**	**67.3**

Source: U.S. Department of Commerce

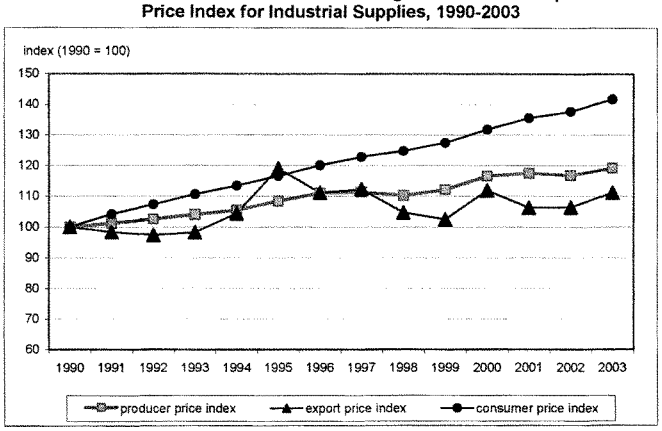
Table 4
U.S. Imports From Major Developing Country Partners by Product Type, 2002
(percent of total merchandise exports)

Product group	Mexico	China	South Korea	Taiwan
Office machines and telecom equipment	17.4	23.6	30.9	33.6
Electrical machinery	12.6	8.2	14.6	16.6
Transportation equipment	19.8	1.5	20.9	4.4
Textiles, apparel, footwear and handbags	7.2	20.0	9.3	7.9
Miscellaneous manufacturing	2.5	18.8	3.0	7.8
Industrial machinery	7.6	3.6	6.0	7.4
Fabricated metal products	3.8	4.7	4.4	8.7
Furniture	2.8	5.6	0.2	2.5
Total	**73.6**	**86.0**	**89.4**	**88.9**

Source: U.S. Department of Commerce

Note: "Miscellaneous manufacturing" includes toys, sporting goods, and other small articles primarily destined for consumers.

Chart 4
Producer Price Index for Manufacturing Industries and Export Price Index for Industrial Supplies, 1990-2003



Source: U.S. Bureau of Labor Statistics

Note: 2003 reflects data through September.

The soft pricing environment since the mid-1990s has taken its toll on manufacturing cash flow. As noted in a study by Popkin,[4] one measure of cash flow is the sum of undistributed profits and depreciation charges. By this measure, manufacturers accounted for more than 35 percent of all corporate cash flow in the United States in 1995. One might have expected that the strong manufacturing boom from 1995 to 2000 would have boosted this share further, but in fact it eased to 30 percent by 2000 and then dipped sharply to 25 percent in the wake of the 2000-2001 manufacturing recession (Table 5). Reduced cash flow constrains resources available to invest in research and development, capital equipment, and other activities that are critical for future gains in productivity.

The inability to raise prices is only part of the reason behind the cash flow paradox. Mathematically speaking, in an environment of strong demand, cash flow will increase even in the context of stagnant producer and export prices, ***provided that the costs of production do not increase more rapidly than demand***. It is thus startling that manufacturing cash flow declined by 10 percent in dollar terms from 1997 to 2000, even though manufacturing production rose by nearly 20 percent—showing clearly that the cash flow crisis is a ***structural***, rather than cyclical, problem.[5] The implication is that the costs of production for U.S. manufacturers have risen dramatically and, as the next sections demonstrate, the culprits are factors that are outside the direct control of manufacturers themselves.

Raw Cost Competitiveness of U.S. Manufacturers

As a starting point to the quantitative analysis of the impact of exchange rates, taxes, regulations, employee benefits, and energy prices on U.S. manufacturing competitiveness, it is useful to ask the question: What would the raw cost position of U.S. manufacturing relative to major U.S. trading partners be in the absence of obstacles outside their direct control? The answer to this question can be found in unit labor costs, which are defined as the ratio of

[4] Joel Popkin and Company, "Securing America's Future: The Case for a Strong Manufacturing Base," report prepared for the National Association of Manufacturers Council of Manufacturing Associations, June 2003, p. 36.

[5] In periods of rapid growth, companies typically allot more resources to working capital in order to ramp up production. While this can cause cash flow growth to decelerate, it generally does not cause absolute declines.

employee wage compensation to value added. As a cost measure, they are superior to wage compensation per hour of work, for the reasons described in the text box.

Table 5
U.S. Manufacturing Cash Flow, 1990-2001

	In millions of dollars	As percent of total corporate cash flow	As percent of manufacturing output
1990	169,469	37.2	16.3
1991	152,544	32.2	14.6
1992	156,937	30.7	14.5
1993	166,462	30.9	14.7
1994	205,249	33.8	16.8
1995	234,362	34.7	18.2
1996	241,834	33.9	18.4
1997	257,725	33.3	18.7
1998	225,528	30.9	15.8
1999	245,950	30.4	16.6
2000	231,573	30.0	15.2
2001	198,239	25.3	13.9

Source: U.S. Bureau of Economic Analysis, U.S. Department of Commerce

Note: Cash flow is defined as the sum of undistributed profits and depreciation allowances.

Chart 5 reports hypothetical manufacturing unit wage costs (excluding employee benefits) in 2002 for the United States and its nine largest trading partners based on exchange rates of 1990, a concept which this report will term "raw cost index." (A detailed description of its derivation can be found in the Appendix.) Using 1990 exchange rates for the international comparisons removes the effect of swings in the dollar's value, which have worked to the considerable disadvantage of U.S. manufacturers. The competitive position of U.S. manufacturers exceeded that of their counterparts in Canada, Germany, and the United Kingdom, and France was only slightly inferior to that of South Korea, Japan, and Taiwan. The chart also hints at the analysis to follow by showing the burden of external overhead costs and currency fluctuations on the U.S. competitive position.

A second important point is that growth in unit labor costs for U.S. manufacturing actually ***declined*** by 0.1 percent over the 1990-2002 period, driven by strong productivity growth. This compares very favorably to Canada, Germany, South Korea, and the United Kingdom, where unit labor costs increased by 10.6 percent, 18.2 percent, 29.3 percent, and 37.1 percent, respectively. Only in France, Japan, and Taiwan did unit labor costs decline. The decline in France deserves special mention, since it is due fundamentally to rigidities in the French labor market.

Unit Labor Costs as a Measure of Competitiveness

Unit labor costs are a fundamental summary measure of a company's cost structure. By scaling wage costs to value added (as opposed to hours worked) they take into account international differences in labor productivity. For example, wage compensation per hour worked in manufacturing is higher in the United States than it is in the United Kingdom. However, that difference is not due to a higher labor cost structure in the United States. Rather, it is explained by the fact that U.S. manufacturing workers are significantly more productive than their British counterparts. By scaling wage compensation to value added, that productivity difference is incorporated into the comparison and the true competitive position of U.S. manufacturing is revealed.

By a similar line of reasoning, differences in capital intensity are also accounted for in unit labor costs. Heavy capital intensity implies that workers can produce more in one hour of work, improving labor productivity and reducing unit labor costs. Thus, factors that affect capital intensity (such as real interest rates, tax policies, and debt and equities markets) are indirectly captured in unit labor costs.

Finally, differences in the cost of raw materials are incorporated into unit labor costs. The costs of raw materials and intermediate goods are subtracted from sales when calculating net value added (it has no effect on total sales). It follows that an increase in raw materials cost reduces value added, thus increasing implied unit labor costs.

Employment laws make it very costly to lay off manufacturing employees, so French companies have compensated by increasing capital investment rather than hiring new employees. While this improves labor productivity and reduces unit labor costs, it does not alter the fact that the cost of labor remains high relative to the United States.

Japan's unit labor costs are only about two-thirds of the U.S. level, due in large part to the decade-long economic slump that began in 1990, during which unemployment increased from 2.1 percent to 5.4 percent. With a soft labor market, Japanese manufacturers have been able to hold hourly compensation costs in check. Productivity grew at about the same rate as in the United States, thus allowing unit labor costs to decline relative to the United States during the 1990s. When (or if) the Japanese economy emerges from the doldrums, this advantage is likely to narrow.

Mexico and China stand out as the two most formidable competitive challenges to U.S. manufacturers in the next 10 years. Each currently has a

considerable advantage over the United States with regard to unit labor costs and is beginning to move into high value-added exports. A silver lining is that anecdotal evidence reveals rapid growth in labor compensation costs. In China, for instance, manufacturing wages have grown on the order of 16 percent per year since 1991, suggesting a cumulative growth rate of well above 100 percent.[6] Furthermore, there is persuasive evidence that wages for skilled Chinese workers are likely to increase dramatically over the next 10 years, narrowing the wide wage gap that currently exists.[7] Mexican manufacturing wages also are likely to have risen substantially, although complete historical data are not available.

Trends in South Korea vividly illustrate the effect of industrialization on the cost structure of manufacturing that may foretell developments in Mexico and China. Only 25 years ago, South Korea counted itself among the low wage, low value-added developing economies, with a level of per capita GDP of less than one-sixth that of the United States. However, it is clear from the chart that, if recent trends in unit labor costs continue, the raw competitive position of U.S. manufacturing soon will exceed that of South Korea. This trend is the rule rather than the exception: rapid industrialization invariably brings strong growth in wages and concomitant demands for benefits such as health care and pensions.

If unit labor costs were the only factor influencing a firm's overall cost structure, then U.S. manufacturers would be much more dominant players in global markets than the current trade situation suggests. In reality, numerous elements outside of their control increase production costs and reduce their international competitiveness.

The Cost Squeeze: Obstacles to the Competitive Posture of U.S. Manufacturers

High Corporate Tax Rates

Although it has a reputation as a low tax nation relative to its peers in Europe and Japan, the United States actually taxes ***corporate*** income at a higher rate (and usually more than once) than its major trading partners. This acts as a drag on competitiveness for three primary reasons: it constrains after-tax cash flow, discourages establishment of foreign manufacturing facilities in the United States, and encourages the migration of U.S. manufacturing facilities to lower-tax jurisdictions.

Chart 6 summarizes trends in statutory corporate tax rates over the past five years for the United States and its major competitors.[8] The U.S. rate was unchanged at 40 percent (consisting of the 34 percent federal rate and an average state rate of 6 percent). In 1997, Canada, Japan, and Germany each had significantly higher rates, but they all moved aggressively to reduce them. As a result, the United States now is burdened with the second highest rate among its trading peers, only slightly below that of Japan. Manufacturers in the purportedly "high-tax" European countries enjoy a significant tax advantage over their U.S. peers.

China's corporate taxation policy deserves special mention. Currently, it operates a parallel rate structure consisting of a 33 percent rate for state-owned domestic enterprises and an 18 percent rate for foreign-funded enterprises. However, observers are expecting the National Peoples Congress to merge the two systems under a single statutory rate of 25 percent—a figure used in this analysis.[9]

Statutory rates are only part of the tax burden faced by U.S. corporations. Taxation of dividend income reduces the net value of that income from the shareholder's perspective, pushing equity values lower than they otherwise would be. This has adverse implications for capital investment.

Until the passage of the Jobs and Growth Tax Relief Reduction Act (JGTRRA) in May 2003, the United States stood apart from its nine major trading partners by prohibiting full or partial deduction of dividends from taxable personal income. The partial deduction incorporated in JGTRRA is scheduled to sunset in 2008, adding a new level of uncertainty to corporate taxation.

A second and more critical issue is the treatment of income earned by foreign affiliates of U.S. corporations. Since the 1962 adoption of Subpart F to the Internal Revenue Code, the United States has chosen to tax foreign source corporate income at the same rate as domestic income. This is unlike all other major trading partners (except France), whose "territorial" systems allow corporate income to be taxed at the prevailing rate in the jurisdiction in which

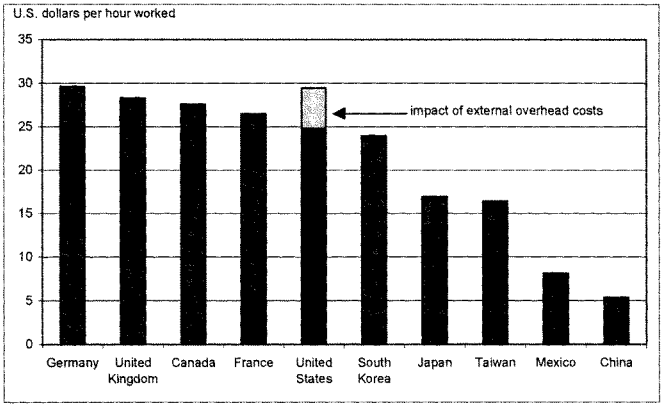
[6] Yiping Huang, "How Cheap is Chinese Labour?" Citigroup Current Economics, June 2003.

[7] Cliff Waldman, "The Labor Market Dynamic in Post-Reform China: History, Evidence, and Implications," Manufacturers Alliance/MAPI, ER-561e, September 2003.

[8] Technically speaking, it is more appropriate to use effective tax rates (which take account of differences in eligible deductions from taxable income) when comparing tax systems. The disadvantage is that comparable data do not exist for many major U.S. competitors. However, differences among countries for which effective tax rates have been calculated are not large enough to affect the results reported here. For a comparative analysis of effective tax rates, see Eric Engen and Kevin J. Hassett, "Does the U.S. Corporate Tax Have a Future," *Tax Notes, 30th Anniversary Issue*, 2002, pp. 15-27.

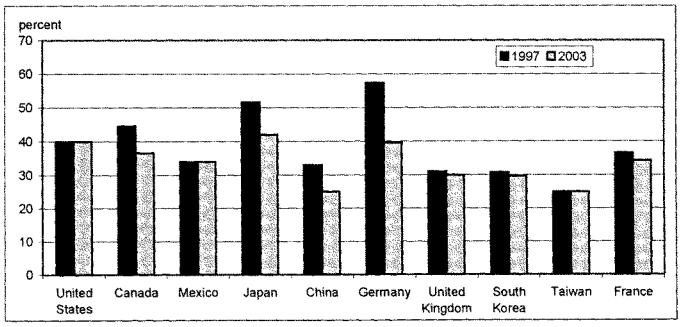
[9] "Corporate income tax revision expected," *China Daily* online version, July 27, 2003.

Chart 5
Raw Cost Position of the United States and Its Nine Largest Trading Partners, 2002



Source: Organization for Economic Cooperation and Development, U.S. Bureau of Labor Statistics, National Statistics of Taiwan, UN Industrial Development Organization, and author's calculations (see Appendix for details).

Chart 6
Statutory Corporate Tax Rates for the United States and Its Nine Largest Trading Partners, 1997 and 2003



Source: KPMG Corporate Tax Rate Survey

the income is earned. The philosophy behind Subpart F originated in the notion that foreign investment is a substitute for domestic investment and, therefore, companies should not gain a tax advantage for moving production offshore. This principle served U.S. companies fairly well in the 1960s when they enjoyed a huge competitive advantage over their major trading partners and dominated world foreign direct investment; the fact that foreign-source taxation raised their overall cost structure only marginally diminished their competitive dominance.

The U.S. corporate tax burden reduces cost competitiveness by 5.6 percentage points.

The world has changed substantially since then. European and Japanese manufacturers became much more cost competitive, the U.S. share of world trade declined substantially, and foreign producers made deep inroads into U.S. industrial product markets. As a result, the marginal U.S. tax burden of the 1960s now has become one of the largest drags on U.S. international competitiveness.

U.S. policymakers have attempted to counteract the tax disadvantage imposed by Subpart F by allowing U.S. multinationals to exclude a certain portion of foreign-source income from U.S. corporate taxes. Beginning in 1971, companies were allowed to create a domestic international sales corporation (DISC), replaced in 1984 by the foreign sales corporation (FSC). Each allowed partial tax deferral of income of a corporate foreign subsidiary derived from handling U.S. export sales. These mechanisms have been challenged successfully by the European Commission before the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO) as illegal export subsidies.[10]

Further complicating the situation is the widespread adoption of value-added taxes (VATs) by major U.S. competitors. VATs are classified for trade purposes as "indirect" taxes (meaning that, while they are statutorily imposed on manufacturers, they can be passed on partially to consumers in the form of higher prices), and as such they can be rebated for exports and imposed on imports. Thus, U.S. exports are subject to both U.S. corporate tax and the VAT of the destination country, while imports to the United States are VAT-free ***and*** are subject to the usually lower corporate tax rate of the exporting country. Estimates of the tax burden related to VAT adjustments are in the neighborhood of $60 billion per year, or about 4 percent of manufacturing value added.[11]

State and local business taxes are a final component of manufacturers' tax burden. Although international comparisons are beyond the scope of this paper, it bears noting that in 2002, U.S. businesses paid nearly $378 billion in taxes of all kinds to states and localities, or 41 percent of total state and local tax revenues.[12]

Table 6 summarizes the tax advantage due to differences in statutory corporate tax rates for the nine largest U.S. trading partners. Expressed as a trade-weighted average, ***the U.S. corporate tax burden reduces U.S. cost competitiveness by 5.6 percentage points***. Canada and Mexico, which carry a large trade weight, have a small advantage, while China, the United Kingdom, South Korea, and Taiwan each have much larger advantages.

Table 6
Burden of the Corporate Tax Rates on U.S. Manufacturing's Raw Cost Competitiveness Relative to the Nine Largest U.S. Trading Partners, 2003

	Statutory corporate tax rate (percent)	Difference from U.S. (percentage points)
United States	40.0	—
Canada	36.6	-3.4
Mexico	34.0	-6.0
Japan	42.0	2.0
China	25.0	-15.0
Germany	39.6	-0.4
United Kingdom	30.0	-10.0
South Korea	29.7	-10.3
Taiwan	25.0	-15.0
France	34.3	-5.7
Trade-weighted average of above countries		**-5.6**

Source: Chart 6 and author's calculations

It is important to note that ***the data in Table 6 do not account for the competitive disadvantage caused by either double taxation of dividend income or the***

[10] For a history of the dispute concerning DISCs and FSCs, see Gary Clyde Hufbauer, "The Foreign Sales Corporation Drama: Reaching the Last Act?" Institute for International Economics Policy Brief PB02-10, November 2002.

[11] Ernest S. Christian, "Manufacturing Repairs," *The Washington Times*, October 2, 2003.

[12] Robert Cline, William Fox *et al.*, "A Closer Examination of the Total State and Local Business Tax Burden," report prepared for the Council on State Taxation, January 2003.

tax treatment of foreign-source income. Comparable international data do not exist to make meaningful quantitative comparisons. Nevertheless, each does impose additional costs on U.S. manufacturers that are not borne by their peers in other countries, implying that their aggregate tax disadvantage is in fact larger than Table 6 suggests. This report errs heavily on the side of conservatism by using the results in Table 6 as a complete measure of the U.S. relative corporate tax burden.

Costs of Employee Benefits

A major area of concern for manufacturing is the escalating cost of providing employee benefits—most notably health care and pensions—to current and retired employees. The United States differs markedly from many of its major trading partners in that businesses play a much bigger role in the financing of health and retirement benefits. In other countries, health care and retirement benefits are funded in large part by governments via general income taxes. The U.S. emphasis on private sector provision of these benefits provides many advantages over publicly funded models, including better quality, more choice, and greater flexibility. However, it also means that the burden of the escalating costs in recent years falls heavily on business.

Table 7 shows the proportion of compensation for manufacturing production workers accounted for by benefits for the nine largest U.S. trading partners, as well as the percentage point difference from the United States. It is a comprehensive measure that includes legally required contributions for government programs such as public pensions, public health plans (Medicare only in the United States), and unemployment insurance, as well as employer contributions for privately funded benefits, the most important of which are retirement plans and, in the United States, health insurance.

U.S. employee benefit costs are higher than most of its major competitors.

Benefits are 20.6 percent of total U.S. compensation, which is substantially higher than for others, except Germany, South Korea, and France. This may seem somewhat surprising, because its competitors (particularly the mature industrial democracies) generally have more generous employer-funded public social programs. On a trade-weighted basis, ***U.S. benefit costs amount to 5.5 more percentage points of compensation than its major trade competitors***.

This seemingly paradoxical result stems from the large role that U.S. manufacturers play in funding health insurance and retirement pensions for their employees. As the next two subsections point out, recent escalations in health care and pension costs are primary factors behind the U.S. competitive disadvantage.

Health care.—As is well-known, the United States spends more on health care (as a percent of GDP) than any other country, and expenditures have outpaced general inflation for years. While a full treatment of the structural problems facing U.S. health care delivery is beyond the scope of this paper,[13] it is important to focus on the disproportionate financing burden faced by U.S. manufacturers relative to their foreign counterparts.

Table 7
Benefits as a Percentage of Total Compensation for Manufacturing Production Workers, United States and Its Nine Largest Trading Partners, 2001

	Benefits as percent of total compensation	Percentage point difference from U.S.
United States	20.6	
Canada	15.8	-4.8
Mexico	11.2	-9.4
Japan	11.2	-9.4
China	8.0	-12.6
Germany	24.2	3.6
United Kingdom	15.5	-5.1
South Korea	29.6	9.0
Taiwan	9.1	-11.5
France	31.3	10.7
Trade-weighted average of above countries		**-5.5**

Sources: U.S. Bureau of Labor Statistics and "The Labor Market Dynamic in Post-Reform China: History, Evidence, and Implications," Manufacturers Alliance/MAPI, ER-561e, September 2003

Note: China data include health benefits only.

Chart 7 illustrates the breakdown of health expenditures among the eight major U.S. trading partners for which data are available (only public-sector funding data are available for China). It demonstrates that the United States not only spends more on health care than its major trading partners, but the private-sector share, at 7.7 percent of GDP, also is far larger than in other countries.

[13] For a more complete discussion of the changing face of U.S. health care, see National Association of Manufacturers, "Health Care at the Crossroads: Manufacturers Agenda for Lower Costs and Higher Quality," September 2002; for more information on the NAM health care agenda, see http://www.nam.org/healthplan and recommendations on page 23 of this report.

Health care spending has been rising rapidly in the United States and its major trading partners, as they all cope to varying degrees with the increasing health care requirements of an aging population and rising costs for new diagnostic technologies and treatments. As Table 8 shows, average annual growth in per capita health expenditures from 1989 to 1999 ranged between 3.8 percent and 8.5 percent, with the United States essentially in the middle of the pack. Total expenditures nevertheless remain significantly higher than in other countries.

The decade-long increase in health care expenditures shown in Table 8 is unremarkable in an international context. However, it is of critical importance to U.S. businesses, because they bear such a large part of the financing burden. Over 90 percent of Americans under the age of 65 currently obtain their health insurance through their employer, a proportion that has remained fairly steady over the past 10 years. Ninety-seven percent of the members of the National Association of Manufacturers provide health care coverage for their employees.[14]

Furthermore, businesses typically pay 84 percent of single coverage policies and 73 percent of family coverage policies—percentages that actually have ***increased*** since 1993.[15] In other countries where the public sector finances the majority of spending, the burden is shared more broadly across the economy, because governments often use general tax revenues to supplement payroll taxes.

Thus, the cost increases outlined in Table 8 have hit U.S. manufacturers harder than their international counterparts. Of more concern is that overall cost increases have accelerated since 1999 and now exceed health sector inflation by a wide margin.[16] As a result, data published by the U.S. Bureau of Labor Statistics show that costs to U.S. manufacturers for private employee health insurance premiums (not including Medicare payroll taxes) reached 8.0 percent of total compensation in 2003, up considerably from the 11-year low of 6.9 percent recorded in 1999.

Private pensions.—In addition to health insurance, most U.S. manufacturers provide funding for private pension benefits on behalf of their employees. Sixty percent of employees in goods-producing industries are covered by a company-sponsored pension plan. The majority of these plans are defined contribution plans, meaning that companies and employees contribute funds during the employee's career, and the employee gains access to the account funds. The only guaranteed benefit is the value of the account at the time of the employee's retirement.

Of concern to manufacturers is the future of "defined benefit" pension plans, which are prevalent in large companies in mature industries.[17] Unlike defined contribution plans, they guarantee a specific benefit for retirees, the level of which is typically based on salary levels and years of service. In order to meet future obligations, companies with defined benefit pension plans must make sure that contribution rates and expected returns on contributions are sufficient to finance promised benefits.

In recent years, the financial health of defined contribution plans has come under a two-pronged attack. First, the baby boom generation has begun retiring during a period of dramatic decline in manufacturing employment. As with Social Security, this changing balance between workers and retirees has put tremendous financial pressure on private pension funds.

Second, the sharp decline in stock market values has dramatically reduced the net present value of corporate pension funds. As a result, many that were healthy just a few years ago now appear severely underfunded. Due to technical regulations about how net present value is calculated with respect to pensions, many manufacturers face the prospect of infusing substantial amounts of cash to return their funds to actuarial balance.[18] Doing so in the current economic circumstances would deal a double blow to U.S. manufacturing competitiveness. It would drastically reduce cash flow (which is already at historical lows), stifling new capital investment that is so critical to a sustained economic recovery. Also, it could add on the order of one to two percentage points to employee benefits costs, further eroding the U.S. competitive posture relative to its major trading partners.

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[14] Manufacturing Institute, "The Facts About Modern Manufacturing, 6th edition (Washington, DC: National Association of Manufacturers, 2003), p. 51.

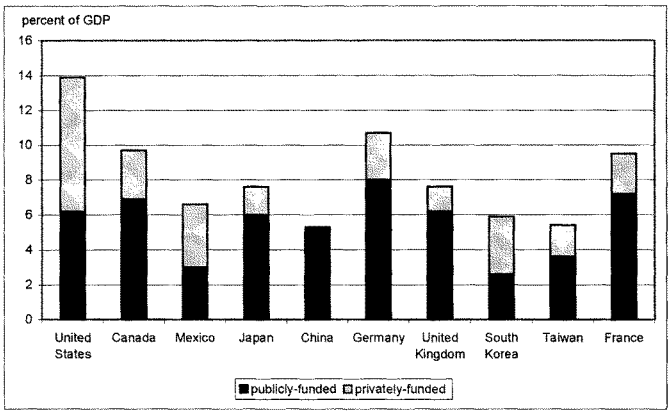
[15] Kaiser Family Foundation, *2002 Survey of Employer Health Benefits*, September 2002. In a recent survey, the National Association of Manufacturers found that nearly one in four of its members paid 100 percent of premiums.

[16] *Ibid.* The gap between growth in premiums and health inflation implies growing claims, which is likely due to the aging of the work force as well as increasing use of "defensive" diagnostic testing to reduce the risk of malpractice suits, among other factors.

[17] According to Wilshire Associates, about 320 companies in the Standard & Poor's 500 index have defined benefit plans.

[18] Current rules link measurement of defined benefit funding levels to the 30-year Treasury bill, a debt instrument that no longer is issued. With interest rates at historical lows, this requirement has undermined the "official" health of many manufacturers' pension plans, increasing calls for a more economically relevant discount rate.

Chart 7
Publicly and Privately Funded Health Care Expenditures in the United States and Its Nine Largest Trading Partners, 2001



Source: Organization for Economic Cooperation and Development and World Bank

Notes: Data for China reflects total health expenditure; no public-private disaggregation is available. Data for Taiwan date from 1996 and are taken from Eva Liu and Joseph Lee, "Health Care Expenditure and Financing in Taiwan," Hong Kong Provisional Legislative Council Secretariat report, June 1998.

Table 8
Average Annual Growth in Per Capita Health Expenditures in the United States and Its Nine Largest Trading Partners, 1989-1999

	1989 level (U.S. dollars)	1999 level (U.S. dollars)	Average annual percentage change
United States	2,475	4,373	5.7%
Canada	1,541	2,428	4.5%
Mexico	260[1]	462	6.4%
Japan	1,013	1,844	6.0%
China	N/A	N/A	N/A
Germany	1,494	2,451[2]	5.5%
United Kingdom	903	1,666	6.1%
South Korea	316	739	8.5%
Taiwan	N/A	N/A	N/A
France	1,517	2,226	3.8%

Source: Organization for Economic Cooperation and Development

[1] 1990.

[2] 1998.

Costs of Asbestos and Other Tort Litigation[19]

Of paramount concern to U.S. manufacturers are the costs associated with actual or threatened tort litigation, particularly the explosion in new asbestos lawsuits. The U.S. tort system is notorious for its high cost, its inefficiency with regard to compensating plaintiffs who have suffered losses, and its inability to clearly link damage awards to demonstrably negligent behavior. These costs and inefficiencies are nominally shouldered by business (yet another obstacle to the raw competitive position of manufacturers) but are ultimately borne by consumers in the form of higher product prices, by workers in the form of lower wages, and by investors in the form of lower returns.

In its most recent analysis of the U.S. tort system released in February 2003, Tillinghast-Towers Perrin reported that the costs of the U.S. tort system reached $205 billion in 2001, or just over 2 percent of GDP. In dollar terms, this represents a 14.3 percent jump from 2000. Tort costs actually declined as a share of GDP from the late 1980s to 1999, but since have risen rapidly. At least one-third of this increase has been due to an upward reassessment of liabilities associated with asbestos claims. Other factors driving the increase are class action lawsuits and large claim awards, record awards in medical malpractice cases, and shareholder lawsuits against boards of directors of publicly traded companies. The report concluded that, absent sweeping structural changes in the way tort claims are handled, double-digit growth in costs is likely for the next several years, which could drive the tort cost-to-GDP ratio to an all-time high of 2.33 percent by 2005.

The asbestos crisis merits specific comment because of the sheer magnitude of potential future claims, which some observers have put as high as $275 billion. This dwarfs the first wave of asbestos litigation in the 1970s, during which some 300 companies that manufactured asbestos products or used asbestos extensively in their operations were sued and ultimately compensated employees for diseases linked to asbestos exposure.

How can future claims of such a magnitude be possible when the majority of victims already have been compensated? The answer is that many asbestos lawsuits today are filed by plaintiffs who show no symptoms of asbestos-related disease. According to the American Insurance Association, such "unimpaired" claimants now account for 75 percent of total lawsuits filed, compared to fewer than 5 percent two decades ago. Furthermore, these claimants are targeting companies across the industrial spectrum. An interim report by the RAND Institute for Civil Justice found that 75 of 83 industrial groups count companies among asbestos defendants. Over 8,400 companies now have been named as defendants in asbestos cases. Today, there is virtually no economic sector that is not affected in some way by asbestos litigation.

Tort costs reduce manufacturing cost competitiveness by at least 3.2 percent.

Comparable international data on the total cost of tort litigation are limited. The only reliable source is the widely cited Tillinghast-Towers Perrin studies of U.S. tort costs, which compile data for the United States as well as several other industrial democracies. While the data are of excellent quality, they are not available for many of the key U.S. trading partners, such as Mexico, China, and Korea.

The first column of Table 9 reproduces tort costs as a percent of GDP for the United States and its major trading partners for which data exist, and confirms that U.S. costs are more than twice as large in relative terms as all others except Germany.

Because the manufacturing sector bears a disproportionate burden of tort claims, it is inappropriate to use the tort cost-to-GDP ratio when calculating the competitive impact on U.S. manufacturing. The second column of the chart attempts to quantify the impact of tort costs on manufacturers by scaling one-third of total national tort costs (a conservative estimate based on private conversations with tort analysts) to manufacturing output. The results, while admittedly crude, provide a rough barometer of the "tax" that tort costs impose on manufacturing production. Finally, the third column shows the percentage point difference relative to the United States, along with a trade-weighted average.

The problem of data availability severely skews the results, since anecdotal evidence strongly suggests that tort costs are much lower in Mexico, China, Korea, and Taiwan, for the simple reason that fully-developed tort liability laws tend to lag industrialization. One need only examine the history of U.S. manufacturing itself. Even in 1950, when manufacturing in the United States was already a mature industry, tort costs were less than one-third their current levels as a percent of GDP. To err on the side of conservatism, the trade-weighted average assumes that manufacturing tort costs are equal to 0.55 percent of manufacturing production in Mexico, China, Korea, and Taiwan—half of the lowest value for all countries with available data. In reality, ***tort litigation likely reduces U.S. manufacturers cost competitiveness by more than the 3.2 percent reported in Table 9.***

[19] This section draws heavily on Frederick T. Stocker, ed., *I Pay, You Pay, We All Pay: How the Growing Tort Crisis Undermines the U.S. Economy and the American System of Justice* (Arlington, VA: Manufacturers Alliance/MAPI, May 2003).

Table 9
Cost of Tort Litigation, United States and Its Nine Largest Trading Partners, 2000

	Tort costs as percent of GDP	Manufacturing tort costs as percent of manufacturing output	Percentage point difference from U.S.
United States	2.0	4.5	—
Canada	0.8	1.4	-3.1
Mexico	N/A	0.6*	-3.9*
Japan	0.8	1.2	-3.3
China	N/A	0.6*	-3.9*
Germany	1.3	3.8	-0.7
United Kingdom	0.6	1.1	-3.4
South Korea	N/A	0.6*	-3.9*
Taiwan	N/A	0.6*	-3.9*
France	0.8	3.2	-1.3
Trade-weighted average of above countries			**-3.2**

Source: Tillinghast-Towers Perrin and author's calculations

* For countries lacking data (Mexico, China, South Korea, and Taiwan), this analysis conservatively assumes that their relative manufacturing tort costs are equal to half that of the United Kingdom, the lowest of all countries with available data.

Costs of Regulatory Compliance

Compliance costs for regulations can be regarded as the "silent killer" of manufacturing competitiveness. Often developed without an objective cost-benefit analysis, regulations have steadily increased in quantity and complexity, regardless of which political party controls the executive branch.

Because of the sheer volume and breadth of regulations affecting manufacturers, it is virtually impossible to estimate total regulatory compliance costs for U.S. manufacturers. Nevertheless, by examining some of the most burdensome regulations, this analysis aims to sketch the outline of trends since 1990.

A useful starting point is the annual report on the federal budget expenditures devoted to writing and enforcing regulations jointly published by the Mercatus Center at George Mason University and the Weidenbaum Center at Washington University.[20] It presents historical data on regulatory agency budget outlays for a wide variety of social and economic regulations. Key results are shown in Table 10.

Overall, total federal budget outlays for administering and enforcing regulations nearly doubled from $13.7 billion to $26.9 billion from 1990 to 2003 (in real terms). Some of the increase was caused by the creation of the Transportation Security Administration (TSA) subsequent to the September 11, 2001 terrorist attacks; absent the TSA, regulatory expenditures increased by still over 60 percent. Regulatory budget outlays are highest in the environmental, consumer safety, transportation, and general business (where the largest components are patent approval and corporate financial oversight) regulation sectors.

Of course what matters more to manufacturers is their own compliance costs. The persistent upward trend in ***enforcement expenditures*** in Table 10 suggests that ***compliance costs*** also have risen. In terms of compliance, three areas of regulation are hit particularly hard: consumer safety, workplace safety, and environmental protection.

The most complete analysis of the compliance costs of regulations presented in two studies for the U.S. Small Business Administration conducted by W. Mark Crain and Thomas Hopkins.[21] These studies estimate total costs of complying with three classes of regulations—environmental (including air and water

[20] Susan Dudley and Melinda Warren, "Regulatory Spending Soars: An Analysis of the U.S. Budget for Fiscal Years 2003 and 2004," Mercatus Center and Wiedenbaum Center, July 2003, available at http://www.mercatus.org/pdf/materials/359.pdf.

[21] Thomas D. Hopkins, "The Changing Burden of Regulation, Paperwork and Tax Compliance on Small Business: A Report to Congress," Office of Advocacy, Small Business Administration, November 1995, and W. Mark Crain and Thomas D. Hopkins, "The Impact of Regulatory Costs on Small Firms," Office of Advocacy, Small Business Administration, October 2001.

Table 10
U.S. Federal Budget Outlays for Regulatory Activities, 1990-2003

	Millions of Dollars		Percent
	1990	2003	Change
Social regulation			
Consumer safety	2,205	4,324	96.1
Transportation	1,996	9,034	352.6
TSA	0	4,756	N/A
Transportation excluding TSA	1,996	4,278	114.3
Workplace safety	1,158	1,471	27.0
Environment	4,812	6,493	34.9
Energy	560	677	20.9
Economic regulation			
Finance and banking	1,574	1,792	13.9
Industry-specific regulation	574	813	41.6
General business	859	2,260	163.1
TOTAL	13,739	26,864	95.5
TOTAL excluding TSA	13,739	22,108	60.9

Source: Mercatus Center and Weidenbaum Center

pollution abatement and Superfund cleanup costs); economic (including, for specific industries, barriers to entry, price regulation, tariffs, and other trade barriers); and workplace (including safety and employment regulations)—plus tax compliance.

Table 11 summarizes the key results of and Crain and Hopkins' 2001 study, showing the estimated cost of regulatory compliance among U.S. manufacturers. The largest costs are imposed by environmental regulations, which account for almost 50 percent of the costs reported in Table 11. The slightly different methodology of the 1995 Hopkins study precludes an accurate comparison of each component over time. Nevertheless, it is instructive to note that direct pollution abatement investments by manufacturers ***more than doubled*** from 1990 to reach $15 billion in 1998 (the latest year for which data are available).

A second costly class of regulations relates to price supports, entry barriers, tariffs, and other rules affecting specific industries. The costs are twofold. First, economic regulations imply that production of certain goods will be reduced, and other goods may not be developed at all. Second, many of these regulations (particularly those that affect prices) have the effect of transferring income away from affected industries. For instance, restrictions on sugar imports raise the domestic price of sugar, thus transferring wealth away from those industries that use it as a raw material. Taken together, these effects cost U.S. manufacturers $48 billion annually.

Table 11
Manufacturing Compliance Costs Associated With U.S. Regulations Compliance Activities, 1992 and 1997
(expressed in constant 2000 dollars)

	Total cost, 1997 ($billions)	Per-employee cost, 1997
Environmental	69	3,691
Economic	48	2,553
Workplace	16	838
Tax compliance	15	822
Total	**147**	**7,904**

Source: W. Mark Crain and Thomas D. Hopkins, "The Impact of Regulatory Costs on Small Firms," Office of Advocacy, Small Business Administration, October 2001, Table 9A.

Current workplace regulations are significantly higher than Table 11 indicates. A recent working paper by the Mercatus Center at George Mason University surveyed, with the support of the National Association of Manufacturers, 100 manufacturing companies and estimated that the total cost of complying with the 25 statutes and executive orders that encompass workplace regulation was about $32 billion in 2000, double the 1997 estimate by Mark Crain and Thomas Hopkins and equivalent to a 1.6

percent excise tax on manufactured products.[22] This burden falls disproportionately on manufacturers employing fewer than 100 workers, which reported average compliance costs of $2,500 per employee, compared to less that $1,600 per employee in larger firms. The most onerous regulations relate to safety and employee benefits.

A new concern the regulatory radar screen for U.S. companies is the sweeping changes in corporate financial reporting requirements in the wake of accounting irregularities at large corporations such as Enron and WorldCom. These requirements have been spelled out in the Sarbanes-Oxley Act, signed into law in July 2002.[23] Because the law has been in force for only a short period, compliance costs are not yet known; but executives are worried. A July 2003 survey carried out for PriceWaterhouseCoopers showed that 44 percent of senior executives expressed at least some concern about Sarbanes-Oxley compliance costs. As was the case with workplace regulations, the proportion of small business executives concerned about compliance cost was much higher at 58 percent.

Most compliance costs imposed by Sarbanes-Oxley are internal (in the form of additional labor and capital resources directed toward accounting procedures) and thus are "hidden" from view. The Johnson Group, a Chicago-based corporate accounting consultancy, suggests that a $3 billion public company will invest between $2.8 million and $8 million per year to comply.

The regulatory compliance burden on U.S. manufacturers is the equivalent of a 12 percent excise tax.

Based on the foregoing discussion, a reasonable estimate of ***the total compliance burden of environmental, economic, workplace, and tax compliance on the economy is in the order of $850 billion—with $160 billion on manufacturers alone, equivalent to a 12 percent excise tax on manufacturing production***. This reflects an increase of about 15 percent over the last five years. Easing this burden on manufacturers is imperative and also will reduce excessive regulatory costs on other sectors of the economy as well.

Cross-country data on regulatory compliance costs are extremely rare. The only comparable international data of reasonable quality are produced by the Organization for Economic Cooperation and Development (OECD) and pertain only to pollution abatement expenditures.

Pollution abatement comparisons severely understate the threat of U.S. regulatory burdens on international competitiveness. Nevertheless, Table 12 shows pollution abatement expenditures in the United States and its nine major trade competitors. Expressed as a percentage of GDP, the U.S. burden is higher than all countries except (surprisingly) South Korea. Canada, Mexico, and the United Kingdom enjoy a considerably lighter cost burden, and even the so-called "green" European economies spend a smaller share of GDP on pollution abatement.

Pollution abatement alone reduces U.S. cost competitiveness by at least 3.5 percentage points.

As was the case with tort litigation, pollution abatement falls disproportionately on the shoulders of manufacturers. As a benchmark, U.S. manufacturers accounted for 83 percent of total pollution abatement expenditures in 1999. The second column of Table 12 estimates the burden of pollution abatement expenditures on manufacturers by scaling 83 percent of total expenditures to manufacturing output. Due to differences in the relative sizes of manufacturing sectors (as a percent of total GDP, the U.S. manufacturing sector is the smallest of the countries listed), the competitive advantage of other countries is even more pronounced. On a trade-weighted basis, ***the burden of pollution abatement expenditures alone reduces U.S. cost competitiveness by at least 3.5 percentage points***. It bears repeating that pollution abatement is the only regulatory area where reliable comparative data exist; by excluding other costly areas of regulation, it substantially understates the total burden to U.S. manufacturers.

A qualitative international survey of regulatory reform reveals that most of the United States major trading partners have embarked on aggressive reform efforts, concentrated in electricity, telecommunications, and general regulatory streamlining. In the context of Table 11 above, these actions will act to alleviate the "economic regulation" component in these countries. The OECD cites Canada, Japan, Korea,

[22] W. Mark Crain and Joseph M. Johnson, "Compliance Costs of Federal Workplace Regulations: Survey Results for U.S. Manufacturers," a Mercatus Working Paper, December 2001.

[23] For a general summary of the provisions of the Sarbanes-Oxley Act, see Francis W. Holman, Jr., "House of Representatives Passes H.R. 3763, the Corporate Auditing Accountability, Responsibility, and Transparency Act," Manufacturers Alliance/MAPI, E-179, April 30, 2002.

Table 12
Cost of Pollution Abatement, United States and Its Nine Largest Trading Partners, Late 1990s

	Pollution abatement costs as percent of GDP	Manufacturing pollution abatement costs as percent of manufacturing output	Percentage point difference from U.S.
United States	1.6	7.6	—
Canada	1.1	4.8	-2.8
Mexico	0.8	3.1	-4.5
Japan	1.4	5.3	-2.3
China	N/A	1.6*	6.1*
Germany	1.5	5.2	-2.4
United Kingdom	1.0	4.7	-3.0
South Korea	1.7	4.3	-3.3
Taiwan	N/A	1.6*	6.1*
France	1.4	6.1	-1.5
Trade-weighted average of above countries			**-3.5**

Source: Organization for Economic Cooperation and Development

Note: As in Table 9, the analysis conservatively assumes that countries with missing data (China and Taiwan) bear a pollution abatement burden equal to half the lowest value of other trading partners (in this case, Mexico).

Table 13
Natural Gas Prices in the United States and Its Nine Largest Trading Partners, 1994–2001
(dollars per million British thermal units)

	1994	2001	Percent change
United States	$2.87	$4.83	68.3
Canada	1.98	2.74	38.4
Mexico	2.01	4.12	105.0
Japan	11.75	10.24	-12.8
China	N/A	N/A	N/A
Germany	4.65	4.74	1.9
United Kingdom	3.57	3.37	-5.6
South Korea	N/A	N/A	N/A
Taiwan	7.11	7.27	2.3
France	3.57	4.71	31.9

Source: U.S. Energy Information Administration

and the United Kingdom as specific countries of extensive activity. Importantly, the impetus for reform stems heavily from international competitiveness concerns.

Energy Costs

Given the U.S. position as a leading energy producer, it may seem surprising that energy costs are an obstacle to U.S. manufacturing competitiveness. It is even more puzzling that current energy headaches are due primarily to surging prices for natural gas—a fossil fuel found in abundance in North America. The United States meets 85 percent of its consumption via domestic production and has virtually no dependence on Persian Gulf nations.[24]

[24] The United States imports a negligible amount of liquefied natural gas from Qatar and the United Arab Emirates.

Due to the relatively low capital cost of installing new gas-fired electricity generation and the ease of environmental permissions, U.S. electric utilities and manufacturers have boosted investment in natural gas-based energy generation. Currently, natural gas accounts for 40 percent of U.S. industrial energy consumption, and natural gas use in electricity generation has increased 59 percent in the last 10 years.

In this context, the sharp rise in natural gas prices has come as a rude awakening. From 1994 to 2001, prices rose by nearly 70 percent in the United States, as shown in Table 13. As a result, natural gas prices are now higher in the United States than in all its major competitors for which data are available, except Japan and Taiwan.

The causes of high U.S. natural gas prices are purely political in nature. Current areas of exploration and drilling are just barely sufficient to meet current demand. The result is tight inventories that leave little room to maneuver in the case of unexpected spikes in demand brought about by cold winters and other unpredictable, yet foreseeable, factors. The American Gas Association notes that producers will be able to boost production from existing drilling areas, as they have in the past, for only perhaps 10 to 15 years.[25] The Energy Information Administration projects that natural gas demand will increase by over 36 percent by 2020 despite higher gas prices, and existing North American sources may be insufficient for demand as early as 2010.

Total reserves, on the other hand, are more than sufficient to provide cheap natural gas for at least the next generation. Proven North American reserves increased by 30 percent from 1980 to 2000 (1,708 trillion cubic feet to 2,208 trillion cubic feet). Unfortunately, they are located in regions that are currently off limit to development (or so heavily regulated that drilling is not cost-effective): the Atlantic, Pacific, and Gulf of Mexico coastal waters; the Rocky Mountain region; Alaska; and Canada. In the interest of energy independence, environmental protection, and the need to preserve our manufacturing base, action should be taken to allow gas producers access to key deposits.[26]

The natural gas crisis has offset cost advantages that the United States enjoys for other industrial fossil fuels. Table 14 shows the burden of natural gas prices on U.S. manufacturing competitiveness. While relatively low prices for refined petroleum and coal more than offset the natural gas burden, a more fundamental question is why the United States, as the holder of one of the world's largest reserve of natural gas, cannot successfully exploit it to the competitive advantage of manufacturers.

Total Effect of Five Cost Pressures

Table 15 sums up the total cost squeeze by aggregating the trade-weighted burden of the five external cost drivers discussed in the preceding sections. Taken together, the aggregate advantage of our nine largest trading partners shaves an average of 18.3 percent from their unit labor costs relative to U.S. manufacturers. This implies that the actual hourly U.S. unit labor costs ($24.30 in 2002) would need to fall to $19.85 to offset this burden. Because $24.30 is 22.4 percent greater than $19.85, this is equivalent to stating that ***domestic cost pressures add 22.4 percent to U.S. unit labor costs in manufacturing relative to its major trading partners.***

Table 14
Burden of High Fossil Fuel Prices on U.S. Manufacturing's Raw Cost Competitiveness Relative to Its Nine Largest Trading Partners, 2003
(percent difference relative to U.S. manufacturers)

	Natural gas	All fossil fuels
Canada	-2.0	-6.0
Mexico	-0.7	-2.3
Japan	3.0	12.5
China	-1.3	-2.3
Germany	-0.1	0.6
United Kingdom	-2.1	2.1
South Korea	N/A	4.1
Taiwan	0.6	15.3
France	0.0	-4.2
Trade-weighted average of above countries	**-0.5**	**0.7**

Source: U.S. Energy Information Administration and author's calculations

The Talent Squeeze: Attracting Job Seekers to Manufacturing

As noted earlier in this report, U.S. manufacturers have done their part to remain competitive in international markets by keeping unit labor costs in check. They have been able to do so by improving productivity at rapid rates.

[25] "From the Ground Up: America's Natural Gas Supply Challenge," American Gas Association report, December 2002.

[26] As the American Gas Association notes, new extraction technologies allow producers to tap reserves with less impact on the surrounding environment than in the past. However, implementation of these techniques requires long lead times, so policy changes must be made sooner rather than later.

A key ingredient to the resurgence of productivity growth has been the quality of the labor force. The cumulative education and work experience contained in the large baby boom generation (whose members began reaching senior management positions starting in the mid-1980s) have contributed incalculable benefits with regard to technology, improved management, and many other innovations; it is a truism to state that all innovations have their origins in human creativity.

Table 15
Total Burden of Cost Pressures on U.S. Manufacturing's Raw Cost Competitiveness
(percent difference relative to U.S. manufacturers)

Cost pressure	Foreign Advantage
Corporate tax rates	-5.6
Employee benefits	-5.5
Litigation costs	-3.2
Pollution abatement	-3.5
Natural gas prices	-0.5
Total cost advantage of 9 largest trading partners	**-18.3**
U.S. net cost burden	**22.4**

Source: Author's calculations based on data in previous tables.

However, baby boomers are beginning to retire and will be almost entirely out of the labor force within 15 to 20 years. As a result, there is likely to be a need for 10 million additional skilled workers by 2020.[27] Currently, the only net new source of skilled workers for manufacturers stems from immigration.

This is an ominous trend, because manufacturers already are reporting difficulty in finding qualified job candidates. Even in the midst of the 2000-2001 recession, 80 percent of U.S. manufacturers reported moderate to serious shortages of qualified job candidates.[28] The situation is not likely to improve as the recovery strengthens because: (a) many young people have a negative, outdated perception of manufacturing jobs; and (b) there is a misalignment of the education system with the skills needed for the 21st Century. If action is not taken to draw more potential employees to manufacturing careers, the strong productivity growth of the past decade could be put at risk in the future. Some of the steps needed to address the skills shortage are: first, governors should connect workforce and economic development as a single strategy; second, federal and local governments should provide adequate training funds to enhance technical skills of the current workforce, particularly for employees at smaller companies; and third, the public workforce investment system should be incented to work more closely with the private sector.

Easing the Burden: Policy Measures To Reduce Manufacturing "Overhead" Costs

To prevent further deterioration of U.S. manufacturing's competitive position in the global economy, policymakers must take immediate and decisive action on a number of fronts to reduce the external overhead costs that have been imposed in the last decade:

Tax Policy

The current tax system is the single largest obstacle to increased economic growth. The long-term solution calls for a new tax system that is simpler and encourages—rather than penalizes—work, investment, and entrepreneurial activity. In the short-term, tax law changes targeted to businesses will spur capital investment, reduce the tax burden faced by companies in a downturn, and make U.S. corporations more competitive in the global marketplace. These tax law changes include—

- Reduce statutory corporate tax rates, as most trading partners have done over the 1990s. The corporate tax burden shouldered by U.S. companies makes it more difficult for them to compete in the global marketplace.
- Repeal the corporate alternative minimum tax, which hits particularly hard when manufacturing profitability is weak.
- Completely eliminate the taxation of after-tax profits distributed as dividends: a practice that nearly all other nations have allowed for years.
- Lower the cost of innovating and investing by making the R&D tax credit permanent and accelerating capital depreciation schedules.
- In the interest of promoting U.S. global competitiveness, it is important for policymakers to simplify and reform the international tax code including changes that minimize the "double tax burden" on corporations by allowing companies to better utilize foreign tax credits and improve rules on taxing global earnings by allowing companies to defer U.S. tax on foreign income until it is paid to the U.S. parent.

[27] Anthony P. Carnevale and Richard A. Fry, "The Economic and Demographic Roots of Education and Training," report commissioned by the National Association of Manufacturers, November 2001.

[28] National Association of Manufacturers and Deloitte and Touche, "Keeping America Competitive: How a Talent Shortage Threatens U.S. Manufacturing," White Paper, 2003.

Health Reform

- As a general principle, provide a closer connection between level of service received and patient expenditure.
- Encourage greater individual responsibility for coverage costs and health status to reduce the incidence of expensive, but preventable, chronic health conditions such as hypertension, diabetes, and asthma.
- Improve affordability of health coverage for individuals and companies through individual tax credits, group purchasing, and tax-favored savings accounts for consumers.
- Reform medical liability laws to discourage "defensive" diagnostic testing and treatment and reduce costs shifting from medical litigation.

Pension Reform

- Policymakers should work to shore up the current private retirement system and ensure retirement security for America's workers by supporting changes to current rules to make it easier for businesses to provide pension benefits for employees and easier for employees to plan for their retirement. Specific changes that should be made include modifying funding requirements to reduce the volatility of cash calls on a business, increasing contribution limits and simplifying complex pension rules and requirements.

Legal Reform

- Legislation to discourage and curtail frivolous lawsuits which would include: (1) proportionate liability (eliminating joint and several liability); (2) a statute of repose beyond which the manufacturer cannot be held responsible for product performance; (3) nationwide standards for awarding punitive damages; and (4) limiting the amount of punitive damages.
- Federal class action legislation to place large, nationwide lawsuits in federal courts that would curtail the current system that allows their filing in plaintiff-friendly venues.
- National asbestos litigation that would limit awards to nonsick claimants, assure that truly sick claimants are compensated, provide for future payments if an exposed individual becomes ill, and provide certainty to the defendant community.

Regulatory Reform

- Establish a more objective cost-benefit review process for all proposed regulations, updated on a periodic basis, which takes full account of adverse impact on business and jobs.
- Carry out third-party cost-benefit reviews for existing regulations pertaining to environmental and workplace safety regulation (the two that are most costly for U.S. manufacturers) and repeal those that are not justified on this basis.
- Express regulatory goals in terms of ***results*** rather than ways of achieving them, leaving flexibility for manufacturers to develop cost-effective solutions.

Energy Costs

- Adopt changes in land-use regulations and permitting procedures that allow access to the large undeveloped natural gas reserves in the Outer Continental Shelf and Rocky Mountain regions. Tapping only developed reserves is already straining to meet current demand and cannot meet expected growth.
- Remove obstacles to moving north-coast Alaska gas to market in the continental United States.
- Increase regulatory flexibility of tax policies to encourage more electricity generation from coal, nuclear, and renewable energy.
- Promote a variety of energy sources other than natural gas for electricity production and avoid policies that would cause generators to switch to natural gas as a fuel.

APPENDIX

Derivation of Raw Manufacturing Cost Index for the United States and Its Nine Largest Trading Partners

Conceptually, the raw cost index for manufacturing is the ratio of wage compensation (which excludes benefit costs) to value-added in manufacturing.

The basic approach is to estimate benchmark levels using data published by the Organization for Economic Cooperation and Development (OECD) for 1990, and project them to 2002 using a measure of hourly wage compensation growth corrected by increases in manufacturing productivity. These underlying data for the projections are published by the U.S. Bureau of Labor Statistics (BLS).

A simpler way to do the projections would be to use BLS international data on unit labor cost growth in manufacturing, but these data include employee benefits and other nonwage compensation and hence do not strictly measure trends in wage compensation that are of relevance to the raw cost index.

Thus, the raw cost index in 2002 can be expressed as the ratio of the 1990 benchmark for wage compensation to the 1990 benchmark for output, each grown by the respective increase in home-currency hourly wages and productivity from 1990 to 2002 (which removes the effect of currency fluctuations):

$$\frac{(\text{Wage compensation}_{90}) \times (\text{home-currency hourly wage compensation growth}_{90\text{-}02})}{(\text{Output}_{90}) \times (\text{output per hour growth}_{90\text{-}02})}$$

Data for the above methodology are available for all countries in the report except Mexico, China, and Taiwan. For these three countries, an alternative methodology was used intended to approximate the technique described above.

Taiwan

For Taiwan, OECD and BLS data exist for the growth rates of wage compensation and output per hour growth, but not for the 1990 benchmark. However, the National Statistics of Taiwan publishes historical data on output, monthly earnings, and total employment in industry (which includes manufacturing, construction, and public utilities). From these data it is possible to calculate total earnings as a share of output in industry for 1990, which is the benchmark used in this report.

Mexico

For Mexico, BLS data on manufacturing productivity growth do not exist. However, the United Nations Industrial Development Organization publishes data on the share of wages in manufacturing value added, based on primary unpublished OECD data.

China

China poses the greatest difficulty, since OECD and BLS do not produce any data at all. In addition, the Chinese Statistical Bureau publishes virtually no information on manufacturing output, wages, and productivity.

This paper takes a comparative approach, taking the ratio of manufacturing wages in China to those in the United States and correcting that ratio for differences in productivity levels. According to several sources, hourly wages for manufacturing workers in China's industrial northeast are about 60 cents per hour, or 2.8 percent of U.S. levels. However, China's productivity in key export industries is estimated to have been about 7 percent that of the United States in 1995 and has likely increased to 13 percent today. This implies that the raw cost index in China is just over 20 percent of the U.S. level.

PREPARED STATEMENT OF HON. BOBBY L. RUSH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Thank You Mr. Chairman: I am pleased that we are having this timely hearing on the State of U.S industry. Although I am not an economist nor a doctor , it does not take much to see that the U.S. industry is hemorrhaging. More than 146,000 jobs were lost last year. Unemployment rates are on the rise. Manufacturing jobs have been cut or sent overseas (139,000 jobs to be exact in my state—Illinois). Yet we are hearing conflicting reports from our President that the economy is rebounding. Last year the White House promised that their tax cuts, favoring the wealthy, would create 306,000 jobs a month. That did not happen. But what has happened, the economy produced a job gain of 21,000. 285,000 to be exact—below the projected monthly increase. What has happened is that there are now more than 8.2 million Americans unemployed and 34 millions Americans, including 12 million kids that live below the poverty line.

Again, I am not an economist but we can all see that the U.S. economy is in dire straits, undergoing a lengthy downturn, high unemployment, a fall in real wages, declining family incomes, and extensive job losses. What we need is obvious, more jobs, lower unemployment and more wage growth. How we accomplish this is the million dollar question. But it is clear that this cannot be accomplished by the U.S. industry outsourcing good U.S. manufacturing jobs overseas nor by instituting further misguided tax cuts that favors the wealthy.

That said, I look forward to hearing the views of Secretary Donald Evans on how best we can strengthen the state of U.S. industry.

PREPARED STATEMENT OF HON. ELIOT ENGEL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Thank you Mr. Chairman. Mr. Secretary, welcome and thank you for your time.

As you may know I started out as a school teacher. I believed that setting clear, but high, standards was important for my students to succeed. I believe most Americans do the same for their Presidents and the Administration.

When I look at the goals that this Administration has set—a stronger economy and more jobs, I can only come to the conclusion that the policies being pursued are a failure. As a teacher, I would have to grade these policies as an F. I believe most Americans would too.

The basic concept has been a return to a failed economic theory of trickle down economics. I believe the data is clear—tax cuts for the super rich do not result in more economic activity.

We don't have a stronger economy.

We don't have more jobs.

What we do have is an ever growing debt that will be passed onto our children.

The Preamble of the Constitution says "We the people of the United States, in order to form a more perfect union, establish justice, insure domestic tranquility, provide for the common defense, promote the general welfare, and secure the blessings of liberty to ourselves and our posterity . . ."

OUR POSTERITY!

How can we look at our children and grandchildren and say we are promoting their general welfare? We are leaving them an economic time-bomb!!! Seven trillion dollars in debt. Every American now carries a burden of $24,326.36. Just this year alone we will spend $340 billion on interest for this debt.

Job creation remains a problem as well. But instead of pursuing successful strategies, this Administration has ignored them. In fact, it has pursued policies that encourage shipping jobs overseas.

In the case of the Manufacturing Extension Program, funding has fallen from about $100 million to $39 million. This is a small program—but it has helped create many jobs.

History tells us of when the Irish would seek a job, they would see a sign in the window that said "NINA." It meant "No Irish Need Apply." I can sum this Administration's policies up in a similar phrase—NANA—No Americans Need Apply.

I yield back.

Chairman BARTON. And with that, we want to welcome the distinguished Secretary of Commerce, the Honorable Don Evans from Midland, Texas, my good friend, good friend of the President, and good friend of the American people, a man who has done an outstanding job as Secretary of Commerce, takes his job seriously, and

agreed to come to the committee today knowing that the issues to discuss are of a very important and sensitive nature, but need to be debated and need to have a dialog.

Mr. Secretary, your written statement is put into the record in its entirety, and we recognize you for such time as you may consume to elaborate on that opening statement. Welcome to the Energy and Commerce Committee.

STATEMENT OF HON. DONALD EVANS, SECRETARY, UNITED STATES DEPARTMENT OF COMMERCE

Mr. EVANS. Thank you so much, Mr. Chairman, and to the dean of the House. Thank you also, my friend, for the invitation to testify.

I look forward to working with you and this entire committee to strengthen the environment that will enable U.S. businesses to continue to succeed in the global economy. And I strongly believe that businesses are at the strategic center of any civil society.

In America, businesses provide paychecks to 138 million workers, paychecks that allow people to support their families, educate their children, and plan for their future. America's economy is an amazing engine, creating opportunities, jobs, and the most advanced products in the world.

As a Nation, we are blessed with an abundance that testifies to the genius of the free enterprise system, the talents and discipline of our workforce, the vision of our innovators and entrepreneurs, and the job-creating drive of small business owners all across America.

With only 5 percent of the world's population, the U.S. economy accounts for one-third of the global economy. The United States remains far and away—far and away—the largest producer of manufactured goods in the world. Standing alone, our manufacturing sector would be the fifth largest economy in the world.

America is the global leader in services, retaining a significant advantage in banking, insurance, telecommunications, information technology, and health care. This administration took office on the bust side of a boom-bust cycle. In fact, 1.78 million jobs were lost by the end of 2001, our first year.

This was a year that marked a recession that had been brewing for months, the collapse of the dot-com bubble, the collapse of the stock market, the collapse of the telecommunication sector of our economy, the tragedy of September 11, which devastated the travel and tourism industry, and the discovery of years of corporate malfeasance.

The President's leadership has seen us through some of the most difficult times this Nation has ever faced, and it has resulted in remarkable economic resiliency. President Bush took aggressive action by providing tax relief for families and small businesses all across America. Without this action, real GDP growth by the end of 2004 would be 3.5 to 4 percent lower, and 3 million more people would be out of work.

Mr. Chairman, I have traveled around the country, and I know there is anxiety out there. Far too many workers are hurting. As a CEO, and as a president of a company in the private sector for some 25 or 30 years of my life, nothing ever felt better to me than

changing somebody's life and telling them they had a job. Nothing—nothing was more painful than telling somebody in our company they did not have a job.

That is experience that has stayed with me my entire life. When I look at the economic data, I know behind every number there is a person, there is a heart, there is a person with hopes and dreams for their family, and that is why the President and I will not rest, and we will not tire until this economy is creating a job for every American who wants a job.

Fortunately, major indicators tell us that the economy is strong and getting stronger. The economy has shown positive job growth for 6 straight months. Unemployment is currently at 5.6 percent. This is below the average of the 1970's. It is below the average of the 1980's. And it is below the average of the 1990's.

Disposable personal income was up 4.8 percent in 2003. Productivity grew from 2001 to 2003 at the fastest 2-year rate in more than 40 years, because of an incredible workforce that we have in this country. Small business confidence is at a 20-year high. The Purchasing Managers Manufacturing Index has been above 60 for four straight months, which is a powerful, powerful number. This is the strongest sustained pickup since 1983.

Mr. Chairman, a Secretary of Commerce last testified before this committee in 1995. A few months later, President Bill Clinton said in his State of the Union, and I quote, "Our economy is the healthiest it has been in three decades, and we have the lowest combined rates of unemployment and inflation in 27 years."

At that time, the number—the combined rate of unemployment and inflation stood at 8.3 percent. The number now stands at 7.3 percent. In addition, home ownership is at an all-time high. Sixty-eight percent of the people in America; 72 million families now own homes. And the interest rates remain near record-year lows. The decrease in mortgage rates since January 1966 saves the average homeowner more than $2,600 a year.

These indicators are encouraging, but we all know we are in a rapidly changing economy. This is a crucial time in our economy, and the decisions we make today will have a profound impact on the future. This morning I want to talk about four key objectives that I believe are critical to our future success.

No. 1, ensuring that our economy remains the most competitive in the world, both here at home and all around the world.

No. 2, promoting America's immense innovative capacity.

No. 3, preparing our workers for the 21st century economy.

And, four, promoting strong commercial ties with the 95 percent of the world's population that does not live in the United States of America.

These objectives are fundamental. American companies and workers recognize they are the ingredients for success. These principles are also the foundation of the President's six-point plan to promote economic growth and job creation.

As our workers seek to equip themselves for new challenges and competition, and as American businesses seek to cut costs, manage smarter, and engage in new markets that they rightly expect a government at all levels to work with them and not against them.

As Secretary of Commerce, it is my job to advocate for American business. In this capacity, I have spent considerable time working with and listening to manufacturers all across this country. Over the past year, we have had 20 roundtable discussions with hundreds of manufacturers in 14 States. Based on this effort, we released a major report entitled "Manufacturing in America" this past January.

Our report contains extensive analysis and more than 50 recommendations. We have already implemented many of these recommendations, and we will be bringing more on line soon.

Manufacturers told us that they want to be able to compete domestically and internationally, but health care, energy cost, tax compliance, regulatory and other costs beyond their control are seriously damaging their competitive position in the world. For example, in 2002, the lawsuit burden on every single American was $809. More than $200 billion is spent on our tort system, and only 20 percent of that goes to compensate those injured for economic damages.

Junk lawsuits drive up health care cost, cut into the bottom line, and destroy jobs. American businesses expect us to work together to address these underlying barriers to growth and investment.

The innovative infrastructure of the United States exists no place else in the world, and has always been one of our greatest advantages. It has been nurtured on the shop floor and in small startups. American investment in innovation creates breakthrough cures, new industries and jobs of every type every day.

President Bush has made historic commitments to the innovative capacity of the United States. We will spend a record $126 billion on Federal research and development this year, and the President has proposed $132 billion next year. This is a 42 percent increase, since President Bush took office.

In addition, the U.S. private sector will spend another $193 billion on research and development this year. Innovation, technology, and entrepreneurship create jobs and raise our standard of living, and we must help them flourish.

There are fundamental and structural changes under way in our economy. It is crucial that students, workers, job seekers, and communities have the tools they need to succeed throughout life. America's workforce must adapt to meet the needs of the 21st century economy, and we must be there to support them.

Future U.S. job growth will continue to be in emerging fields, in emerging industries. This administration is committed to investing in ongoing retraining programs for our workers that need to develop the skills in order to meet the needs of a transitioning economy. Our budget proposes roughly $23 billion to fund 31 job training and employment programs governmentwide this next year.

In addition, the President has proposed a $250 million community college job training program initiative to give workers immediate and relevant training opportunities. Government can do a great deal, but it is important to note that the private sector invests even more—about $60 billion a year—to provide training and education to the American workers. Lifetime learning is essential to the competitive position of our industry and our workers.

I cannot talk about the U.S. economy without talking about the important role of trade. The combined effects of rapid change in communications, transportation, technology, the end of the cold war's economic divisions, and the lowering of trade barriers have made the global marketplace a reality.

That translates into expanded markets for U.S. goods and services. Today, the U.S. gross domestic product is five times larger than it was in 1950, and U.S. exports are 20 times larger. U.S. exports account for nearly 25 percent of U.S. economic growth in the 1990's and support more than 10 million jobs.

It is our responsibility to deliver a level playing field for U.S. companies, and we will continue to eliminate tariff and non-tariff barriers to our exports. Since 2001, the Department of Commerce has initiated 138 new antidumping and countervailing duty investigations resulting in 57 new orders placed on unfairly traded imports. The goal is simply to ensure that everyone is subject to the same rules of the game.

Let me briefly address our relationship with China. The stakes are high. China is growing at an extraordinary rate, and it is a major player in the global economy. Indeed, China is our third largest trading partner; also, the fast-growing market for U.S. goods and services. Our exports to China surged by 29 percent in 2003, while imports were up by 22 percent.

While China's market is an enormous opportunity, it presents challenges that we must confront. I can assure you that the Department of Commerce is dedicated to making sure China plays by the rules. Over 50 percent of the new antidumping cases brought in 2003 were against China. In previous years, cases against China only accounted for approximately 10 to 15 percent of the total.

And just last week USTR announced the filing of a case at the WTO regarding China's discriminatory tax rebate for integrated circuits. We are fully committed to ensuring that China complies with the WTO rules, opens markets, drops barriers, eliminates State subsidies, and allows market forces to determine economic decisions.

In June, I will return to China to press their leadership for compliance, enforcement, and openness. The hallmark of our trade relationship will continue to be effective enforcement. We will enforce our rules and ensure others do the same.

Before I conclude, permit me to address a topic that is getting a lot of attention—the impact of international competition on American jobs. There are some American workers who have seen their jobs offshored, and who are concerned that their jobs could be going overseas. We all share these same concerns, and we are all motivated to address them.

However, the United States greatly benefits from doing business with the world. Right now, foreign companies employ some 6.4 million Americans. Foreign business leaders realize that American workers are the best workers in the world, and that is why they are here.

There are hundreds of foreign companies employing thousands of American workers in each of your States. For example, in my home State of Texas, Toyota plans to hire 2,000 employees in the next year in its new $800 million San Antonio truck facility. In addition,

an Indiana auto parts manufacturer has just broken ground on a $13 million plant in Austin that will supply Toyota's factory.

Economic isolationism would threaten each of these 6.4 million American jobs. America cannot turn back from a global marketplace of goods and services. Engagement with the world creates jobs and growth, while a policy of economic isolationism destroys them.

We will continue to strengthen the programs I have described earlier to assist individuals and communities throughout our economic—throughout our country and through this economic transition. We will continue to work to ensure American companies remain competitive with anyone in the world, and we will enforce our trade laws and make sure others play by the rules.

We will promote education. We will support innovation. And we will not turn away from the global engagement that has been the most powerful source of economic progress in modern times and built the global economy.

Mr. Chairman, and members of the committee, it is an honor to be with you today. I appreciate your time and attention, and I would be pleased to answer any questions that you may have.

[The prepared statement of Hon. Donald L. Evans follows:]

PREPARED STATEMENT OF HON. DONALD L. EVANS, SECRETARY OF COMMERCE

Mr. Chairman, thank you the invitation to participate in this hearing on the state of American industry and the United States' economy. I appreciate your leadership in raising the concerns of American companies and workers and helping policymakers understand the challenges and opportunities U.S companies and workers are facing. I would like to also congratulate my friend Chairman Barton on your new role as Chairman of this Committee. You have served this country well for over 20 years and I am sure your experience and leadership will bring you continued great success. I look forward to working with you and other members of the Committee as we continue strengthening the environment that will enable American businesses to continue to succeed in today's global economy.

I strongly believe that businesses are at the strategic center of any civil society. There are more than 138 million Americans at work right now realizing their aspirations for their families. Businesses in America—from the smallest shop to the biggest corporations offer opportunity for those with a dream, provide a foundation for community and ground our democracy

THE STATE OF AMERICAN INDUSTRY IS STRONG

America's economy is an amazing engine—generating opportunity, jobs, and the most sophisticated and technologically advanced products in history. It is a testimony to the genius of our system, the talents and discipline of our work force, and the vision of our entrepreneurial spirit.

With only five percent of the world's population, the United States produces about one-third of the global output. Americans have created an $11 trillion economy. The United States remains far and away the largest producer of manufactured goods in the world. Standing alone, our manufacturing sector would be the 5th largest in the world—larger than China's economy as a whole. America is the global leader in services, and retains a significant advantage in banking, insurance, telecommunications, information technology and healthcare.

Household wealth has soared from an inflation-adjusted $7.8 trillion in 1950 to $44 trillion in 2004. We all understand how important it is for people to own a home and build their own savings. A record 72 million American families own their own home. More than 52 million, or nearly half of, American households, own equities according to a recent survey released by the Investment Company Institute and the Securities Industry Association. That represents a 7 percent gain, or 3.5 million more households, from January 1999.

THE RESILIENCE OF THE AMERICAN ECONOMY

The Bush Administration took office on the bust side of a boom-bust cycle that led to a recession and significant job losses. In fact, nearly 1.8 million jobs were lost before the President's first year in office was complete: a year marked by a recession that had been brewing for months, the collapse of the dot-com bubble, the tragedy of September 11, and the discovery of years of corporate malfeasance.

It is difficult to estimate the effects of 9/11 on our psyche or business confidence. But we now know that in the 5 months following September 11, almost 1.2 million jobs were lost: 51 percent of all jobs lost in overall payroll employment decline since January 2001.

The President's leadership has seen us through some of the most difficult times in recent memory and resulted in remarkable economic resiliency. Fortunately, the tax initiatives of 2001, 2002 and 2003 softened the blow from the recent recession and set the stage for vigorous economic growth going forward. Without the President's tax relief for families and small business, by the end of this year real GDP would be 3.5 to 4.0 percent lower and 3 million more people would be out of work, according to a Treasury Department analysis.

The Joint Economic Committee recently noted that the peak unemployment rate just after the last recession was far lower than in prior recessions. The 6.3 percent peak in unemployment during the last recession compares favorably to 7.8 percent in 1980, 10.8 percent in 1982, and 7.8 percent after the 1990-91 contraction. Indeed, the current 5.6 percent unemployment rate is below the average rate of the 1970s, the 1980s, and the 1990s.

A look at the global economy also underlines the positive direction we see at home.

The latest data shows European unemployment at 8 percent compared to 5.6 percent in the United States. America also has the lowest long-term unemployment rate in the West.

Over the past three years, the American economy has grown about twice as fast as the economies of Europe and Japan. In 2003, the U.S. economy expanded at a pace of 4.3 percent, with the second half of 2003 posting the best growth in 20 years. You cannot have strong employment without economic growth.

Several other indicators show that the economy is recovering from the shocks this economy has faced over the past few years. Just look at recent data:

- Jobless claims are at their lowest level since the recession began.
- Nominal after-tax income was up 3.4 percent in 2003.
- Productivity grew from 2001 to 2003 at the fastest 2-year rate in 50 years.
- Small business confidence over the past several months has been at 20-year highs.
- The equity markets added $4.2 trillion in new wealth from October 2002 to today.
- The economy has created 364,000 jobs in the past six months according to the payroll survey and nearly one million according to the household survey.
- The purchasing managers index of manufacturing activity recorded its fourth month over 60 in February, indicating the strongest sustained pickup in activity since 1983.
- And a recent employment survey shows that manufacturers are optimistic about hiring.

The last time a Secretary of Commerce testified before this Committee was late 1995. A few months later, President Bill Clinton noted in his State of the Union that "Our economy is the healthiest it has been in three decades [and] we have the lowest combined rates of unemployment and inflation in 27 years." At that time, the combination of unemployment and inflation, or the "misery index," stood at 8.3 percent. Today that measure is still lower—at 7.3 percent. In addition, the mortgage rate was then at 7.8 percent; today it is 5.4 percent. Based on the average price of a home ($168,700), the average American homeowner is now paying $2,600 less per year in mortgage payments.

Clearly, the President is taking the country in the right direction.

We do, however, have a lot of work to do, and neither the President nor I will be satisfied until every American who wants a job can find one. But both of us know that heaping additional burdens on business and closing markets always kills jobs. That was the painful lesson of the Depression, when raising barriers to trade compounded and prolonged the misery for working people around the world.

There is more to do. The government must continue to encourage economic growth through implementing the policies that support the principles I will discuss. The President has proposed an aggressive plan and I am pleased to be here today to discuss it.

Before President Bush asked me to serve in his Administration, I spent almost 30 years in the private sector; I know that our company helped many of our fellow employees realize the dreams they had for their families. Watching those dreams become reality was the most rewarding aspect of my tenure as a company president and chief executive officer.

During those years, I was tested through business cycles. Identifying challenges and risks, and adapting to opportunities allowed our company to compete and win. We did not ignore challenges, did not try to stop change, and never gave people working with us false promises of avoiding change.

Mr. Chairman, I know that there is anxiety out there in America. I know that far too many of our workers are hurting. As a CEO, nothing gave me greater satisfaction than changing a person's life by offering them a job. And nothing was more painful than telling someone at our company that we no longer had a job for them. That experience stayed with me. When I look at the latest economic data, I see through the numbers. I always see a person with hopes and dreams and a family. Fortunately, we are beginning to see favorable momentum.

The President and I are committed to creating the conditions for economic growth and vitality so every single citizen who wants to work can find work. The President is defining America's economic future in the world—not assigning blame, promoting economic isolationism, or selling Americans short. As Secretary of Commerce, my job is to advocate for American business. My focus everyday is to help companies, workers and communities as they work to meet new challenges and seize opportunities.

Mr. Chairman, I believe that we are at a time of transition. Transitions are never easy and this Administration knows there are workers experiencing pain. We are directing resources and focusing our efforts on those who are hurting. For example, our Economic Development Administration at the Department of Commerce has worked with the Labor Department as they deploy "rapid response" teams to Michigan, North Carolina and Tennessee to assist communities in those states dealing with economic dislocation.

The challenges of today will require policymakers to be forward-looking and innovative like never before. We have to understand and keep up with the rapid pace of change, because our businesses must continue to lead the world, enter new markets, control costs, and attract, train and retain the best people.

We are at a crucial time in our economic history and the decisions we make today will have profound impact. This morning, I want to talk about four key objectives that I believe are critical to our future success:

Ensuring that our economy remains the most competitive in the world;
Promoting America's immense innovative capacity;
Preparing our workers for the 21st century economy; and
Promoting strong commercial ties with the 95 percent of the world's population that does not have the blessing of living in this country.

These objectives are fundamental. American companies and workers recognize they are the ingredients for our success. I have been to many states in the three years that I have had the honor of serving this Administration and people tell me time and time again—allow us to create, compete and seek new markets and we will get the job done every time.

These principles are also the foundation of the President's six-point economic plan to promote economic growth and provide momentum for job creation.

As clear and intuitive as these principles sound, however, they are not universally held. Some seek refuge in policies and rhetoric that promise winning without competition, job creation through economic isolationism, and small business fed by additional taxation.

I look forward to our dialogue about the challenges and opportunities facing American industry and the steps that the Bush Administration is taking to promote the principles of economic development I just articulated. But before turning to each of these subjects in more depth, I want to take a moment to provide a framework for where the economy of the United States currently stands.

KEEPING OUR ECONOMY THE MOST COMPETITIVE IN THE WORLD

As our workers equip themselves for new challenges and competition, and as American businesses cut costs, manage smarter and engage in new markets they rightly expect the government at all levels to work with them, not against them.

Rising costs of health care, litigation, energy and unnecessary regulation kill jobs. It is the steady accumulation of multiple burdens that has had the most severe impact on the competitive environment in which our companies operate.

While our businesses have tightened their belts and raised their productivity in an effort to succeed in the marketplace, they have seen that advantage and their hard-won productivity gains eroded by higher energy costs, medical and pension costs, tort liability costs, and excessive taxation and burdensome regulation. According to the National Association of Manufacturers, these overhead costs add approximately 22 percent to American manufacturers' labor costs (nearly $5 per hour worked).

As Secretary of Commerce, I have spent considerable time working with and listening to manufacturers all across the United States. Over the past year, we held 20 roundtable discussions with hundreds of manufacturers in the automotive, aerospace, biotechnology, furniture, semiconductor, and textile industries, among others, in more than fourteen states. And I can tell you that they did not ask us to isolate them behind walls or to impose new tariff regimes. They told us to get our own house in order by attacking the burdensome costs that make them less competitive in a global environment.

Based on this effort, we released *Manufacturing in America* in January, a comprehensive report with more than 50 recommendations. We have already implemented a number of these recommendations and will be enacting more soon. For our part, we will be appointing an Assistant Secretary for Manufacturing and Services and establishing an Unfair Trade Practices Task Force to monitor and ensure our foreign competitors are playing by the rules when importing into the U.S. market. In addition, we will also aggressively pursue trade violations that put U.S. exporters at a disadvantage through a new Office of Investigations and Compliance. The President's Manufacturing Council will also be established to provide high-level guidance on issues impacting manufacturing in the United States.

These steps will help, but it will take a much larger, very sustained effort from policymakers to get some fundamental costs in line to assist our companies to continue to win in the world economy.

We all know that rising health care costs are eroding competitiveness. In 1980, health care was 8.8 percent of GDP. In 2000 it was 13.3 percent and in 2002 it was nearly 15 percent. It will be 16 percent of GDP within five years. Businesses pay for their employees' health benefits because of tax incentives and because they see their own interest served by a healthy and motivated workforce: 97% of the National Association of Manufacturers' members pay for employee health care benefits. However, there is a competitive cost of doing so: the United States already spends more than twice as much on health care per person as other industrialized countries.

Regulatory compliance remains a huge burden in expense and lost time. While the exact cost of regulation is uncertain, the total cost is comparable to discretionary spending—about $640 billion in 2001, according to the Office of Management and Budget (OMB). Regulation can increase the cost of producing goods and services in the economy, thereby raising prices to the consumer and placing jobs and wages at risk.

Regulatory compliance costs fall hardest on small and medium-sized businesses. This is a significant finding since small firms account for the vast majority of new business growth. Small business ownership is a critical vehicle for all Americans—and increasingly for women and minorities—to achieve greater economic opportunity.

In 1999, the OECD estimated that the economic deregulation that occurred in the United States over the last 20 years permanently increased GDP by 2 percent. The OECD also estimates that further deregulation of the transportation, energy, and telecommunication sectors would increase U.S. GDP by another 1 percent.

This country must build on a national energy plan that will help us access new sources of supply and improve energy transmission. Businesses use nearly 40 percent of the natural gas and 30 percent of the electricity consumed in the United States.

I hear a great deal from businesses of all shapes and sizes about the complexity of our tax system, and the disincentives that complexity creates for doing business in the United States. This complexity raises costs but it also raises uncertainty, which is the enemy of investment and job creation. The tax code also has a profound effect on the relative attractiveness of investing in and creating jobs in the United States. The first, and easiest, action to take is to make the President's tax cuts permanent so businesses can continue to expand and plan for future growth.

One of the most egregious examples of government increasing costs comes out of the tort system in this country. In 2002, the lawsuit burden was $809 for each American. More than $200 billion is spent on our tort system, and only 20 percent of that goes toward economic damages. One issue of particular concern is the ongoing asbestos litigation. The continuing litigation has yet to help many of the individ-

uals who were harmed by prolonged exposure to asbestos. At the same time, the litigation hangs over our economy, raising all companies' insurance costs and dampening their ability to hire.

You cannot say you support creating the environment for job creation unless you grapple with the underlying drivers of costs that discourage hiring and depress investment. That is why President Bush has proposed relief for the engines of our economy.

ENSURE THE UNITED STATES REMAINS THE MOST INNOVATIVE NATION ON EARTH

The innovative capacity of the United States has always been one of our greatest strengths. The innovation infrastructure of our country is built on over 200 years of invention, discovery, development and commercialization. It is an intricate system that exists no place else on Earth. Our investments in innovation—whether in federal labs, at universities, or in businesses across America—create breakthroughs, cures, industries and jobs every day.

America's entrepreneurial spirit will originate from businesses being built in garages and innovations taking place on shop floors. It is America's inventors and workers who create new ways of thinking and doing, spawning new industries and ways of life.

Innovation ensures the jobs created will be good jobs. New products and production methods continue to raise our productivity and competitiveness, and will raise our standard of living to unprecedented levels. President Bush has made historic commitments to the innovative capacity of the United States. We will spend a record $126 billion on federal R&D this year, and the President has proposed $132 billion next year. This is a 42 percent increase since President Bush took office. In addition, the American private sector will spend another $193 billion on R&D this year. To help promote this private sector commitment we continue to urge Congress to make the R&D tax credit permanent.

Business leaders want a continued commitment to R&D and assurance that the government reinforces, rather than creates obstacles to, the process of generating new ideas and of bringing innovations to the marketplace. That is why the Administration continues to support the unique capabilities of national labs and universities, including establishing cooperative research programs for the benefit of small and medium-sized businesses. In addition, this Administration is promoting the process of manufacturing technology transfer to ensure that the benefits of R&D are diffused broadly throughout the manufacturing sector, particularly to small and medium-sized enterprises.

Innovation and investment are key drivers of the economy. One reason for the manufacturing sector's early entry into recession was a sharp drop in business investment as industry pulled back from a period of heavy investment in technology. Not surprisingly, the industries with the most significant job losses in manufacturing are precisely those industries—telecommunications equipment and computing—that benefited most from the boom in investment of the late 1990s.

There is recent evidence that innovation will continue to propel the American economy. According to the Institute for International Economics, our economy shed 71,000 software programmer jobs paying an average of $64,000 between 1999-2002. But at the same time, 115,000 software engineering jobs paying $75,000 were created, a good sign that higher-paying jobs are replacing those being lost.

Americans should expect great advances in biotechnology, nanotechnology, and in many other industries across our economy. These advances will improve lives around the world and create American jobs. That is why the President is taking dramatic steps to promote innovation through R&D, with targeted spending at the record levels noted above. This money catalyzes the private sector's ingenuity and creates the industries and jobs of the future.

Business leaders emphasize the importance of adequately and effectively protecting intellectual property rights, and the corrosive effect of the failure of some of our trading partners to enforce these rights. Intellectual property protection is essential in ensuring the virtuous cycle of innovation that raises our productivity and meets the needs of consumers around the world. That is why the Department of Commerce continues to strengthen the Patent and Trademark Office, enhancing intellectual property protection and increasing the availability of new products and services.

This Administration is promoting the technological infrastructure of the 21st century. We have taken concrete steps to create an economic and regulatory environment in which broadband can flourish:

- The President's tax relief has given businesses powerful incentives to invest in broadband technology.

- The President's economic security package allows companies faster depreciation for capital-intensive broadband equipment.
- The President has signed a two-year extension of the moratorium on Internet access taxes, and urges the Congress to make the moratorium permanent.
- Under this Administration, the FCC has issued an Order freeing newly deployed broadband infrastructure from economic regulation designed for a different era. This decision provides a powerful incentive for incumbents and new entrants alike to invest in new broadband infrastructure.
- The Administration also supports policies that will ensure that Voice-over-Internet Protocol is also free from unnecessary economic regulation.
- The Administration has doubled the amount of radio spectrum available for unlicensed wireless broadband technologies and cleared the way for additional licensed spectrum as well. And,
- The Administration is working to ensure that Broadband-over-Power Lines can be beneficially deployed as quickly as possible.

All of these actions have helped to ensure that consumers have a variety of choices for broadband, particularly in rural communities, and will speed infrastructure investment in the United States. As a result we have seen the number of broadband subscribers in the United States increase from 10 million in 2001 to over 21 million today.

Other pro-growth policies will help American businesses create new industries, companies and jobs. When some propose raising tax rates, they are disproportionately taxing the engines of growth—small businesses. Small businesses owners pay almost 80 percent of the taxes in the top rate through pass-through tax entities. Small businesses create approximately 70 percent of the new private-sector jobs in this economy. Small businesses employ half our workforce. If taxes are raised on these firms, they will have less money to hire and invest.

Innovation, technology and entrepreneurship continue to create jobs and augment our standard of living and we must be committed to helping them flourish.

PREPARING OUR WORKERS FOR THE 21ST CENTURY ECONOMY

There are fundamental and structural changes under way in our economy.To meet this challenge and benefit from the opportunities that innovation creates, it is crucial that students, workers, job seekers and communities are provided with the assistance and tools they need to succeed. America's workforce must adapt to meet the needs of the 21st Century economy, and we must be there to support them.

Employment in manufacturing has been declining since 1979. The decline of manufacturing employment and the rise of service employment are manifestations of structural change. What many fail to note is that this phenomenon is global: almost all major industrialized economies have lost manufacturing jobs. Some have tried to lay the blame solely on low-cost labor in developing countries, but it is important to note that China lost 8.6 million manufacturing jobs between 1998 and 2002.

In each one of your districts, new jobs are being created every day. The Business Employment Dynamics report indicates the American economy creates about 600,000 jobs a week. Amid dynamic job "churning" in this country, 39.2 million jobs have been created since 1980. According to recent data from the Bureau of Labor Statistics (BLS), the United States is expected to create 21 million net new jobs by 2012, increasing our workforce to 165.3 million in 2012. And looking deeper into these numbers reveals that the trend of our economy becoming more deeply based upon services will continue. In addition these new jobs will be predominantly in emerging fields and industries—four of the ten fastest growing industries, in terms of output, from 2002-2012 are expected to be in high tech.

Add to this the fact that BLS also estimates that the average American changes jobs ten times from ages 18 to 36, and you get more insight into the shifting and dynamic work environment that Americans face.

We will need to prepare for this ongoing transition. The talent and motivation of the men and women who work in and manage America's companies must be matched by our efforts to promote education and training to compete in a dynamic, global economy.

Some business leaders I have spoken to express serious concerns about whether the United States is adequately preparing the next generation for the demands of a high-tech workplace. Advanced labor skills are one of the decisive factors determining our nation's ability to compete in the global economy.

Preparing the next generation of America's leaders starts with the basics. That is why passage of President Bush's *No Child Left Behind Act* of 2001 was so important. The new law reflects the President's determination to improve the performance

of America's elementary and secondary schools while at the same time ensuring that no child is trapped in a failing school.

In addition, the President has a $250 million community college job training initiative, to train people for today's economy and help them find jobs. The President's "Jobs for the 21st Century" initiative will prepare our economy and workforce for new challenges by expanding access to post-secondary education and fostering job-training partnerships between community colleges and employers in industries with the most demand for skilled workers.

This Administration is committed to investing in the types of ongoing retraining programs our workers need to develop the skills in our transitioning economy. The Administration's 2005 budget proposes roughly $23 billion to fund 31 job training and employment programs government-wide. The bulk of this funding, about $19 billion, is administered by the Departments of Labor and Education primarily through the Workforce Investment Act (WIA), the Carl D. Perkins Vocational and Technical Education Act (Perkins), Vocational Rehabilitation Services, and Pell Grants for students enrolled in technical or two-year post-secondary schools.

We will also dedicate over $1.1 billion in fiscal year 2005 for training and cash benefits for workers dislocated by increased imports or a shift of production to certain foreign countries.

Government can do a great deal, but it is important to note the significant investment that American business is making in the future of the American workforce. The private sector spends about $60 billion a year to provide training and education for American workers. This investment is made in major corporations that have extensive programs akin to in-house business schools, and in small businesses that help with tuition for part-time classes and local seminars.

These public and private investments make a difference in the lives of millions of Americans and they are essential to the competitive position of our industry and workers.

PROMOTING STRONG COMMERCIAL TIES WITH THE 95 PERCENT OF THE WORLD THAT DOESN'T HAVE THE BLESSING OF LIVING IN THIS COUNTRY

I cannot talk about the American economy without talking about the important role of trade and the role of investment in a global economy.

Expanding trade and investment abroad are, and have been, fundamental pillars of American economic success in the 20th and 21st centuries. Trade represents an unprecedented opportunity for our workers and our future. Americans welcome trade because it expands opportunity and growth. Over 230,000 small and medium-sized enterprises (SMEs) export from the United States, accounting for 97 percent of all American exporters. Very small companies' those with fewer than 20 employees—make up more than two-thirds of all American exporting firms. President Bush supports expanding trade, just as do American businesses, because the benefits are clear.

Since the creation of GATT in 1948, real GDP has skyrocketed. World exports have grown from $58 billion to nearly $6 trillion. Expressed in 2000 dollars, U.S. per capita GDP grew from $12,000 in 1950 to $36,000 in 2002. Today, U.S. GDP is five times larger than it was in 1950, and American exports are 20 times larger. American exports accounted for nearly 25 percent of U.S. economic growth in the 1990s and supports more than 10 million jobs.

Fair trade helps to lower prices and raise American living standards. Over the past decade, NAFTA and the Uruguay Round agreements have raised the income of the average American family of four by up to $2,000 a year. A University of Michigan study shows that lowering global trade barriers by one-third could boost the American economy by $177 billion, and raise living standards for the average family by $2,500. Trade also drives competition and innovation, both of which are key to raising productivity and greater prosperity worldwide.

Trade and security go hand in hand. Countries that trade together have more to lose in the event of conflict; trade becomes part of a virtuous circle reinforcing peaceful international relations and stronger economic development. We have seen in the not-too-distant past that, when economies close their doors, it has a ripple effect. Other nations adopt protectionism and everyone loses. The world experienced this in the 1930s with the Great Depression and the ensuing conflict of World War II.

The combined effects of rapid changes in communications, transportation technology, the end of Cold War economic divisions, and the global lowering of trade barriers have made the global marketplace a reality. That translates into expanded markets for American goods and services, but also stiffer competition—both in export markets and here at home.

However, this is no reason to withdraw from the world economically. Our business leaders understand that their future growth depends on a global market and that their access to export markets depends on a willingness to engage foreign competitors here. And they do not shrink from the task.

I do not hear an interest in economic isolationism from the business community, whether in the form of tariffs or quotas. Rather, our companies and workers see international trade as a simple question of fairness. If the United States keeps its markets open to its trading partners' goods, then they should do the same. But, where our trading partners do not live up to the terms of our agreements or otherwise heed the rules, those trading partners should face the consequences as laid out in those agreements.

Trade Enforcement

This Administration will continue our efforts to eliminate tariff and non-tariff barriers to our exports through negotiation with our trading partners. We will also continue to vigorously enforce existing trade rules and American trade laws. Since January 2001, Commerce has initiated and completed 152 new antidumping and countervailing duty investigations resulting in 61 new orders placed on unfairly traded imports.

We know that we have the best workers in the world, and that we can compete with anyone. But the competition has to be fair. The security and prosperity of our nation and the world depend on the rules being perceived as fair.

In order to ensure this end, this Administration is taking new and proactive measures to strengthen the enforcement and compliance of our trade agreements. Within the Department of Commerce's International Trade Administration, we have created a new Unfair Trade Practices Task Force that will expand and strengthen our ability to advance American commercial interests by attacking the root causes of unfair trade. This office analyzes market trends and foreign government and business practices to identify potential unfair trade problems at the earliest stage possible. The Task Force is presently analyzing the 30 largest categories of Chinese imports, including computers, footwear, office machine parts, furniture, and radio/TV equipment.

We are also creating a new Office of Investigations and Compliance as an enforcement unit within the Commerce Department to make sure our trading partners abide by their agreements and to combat violators of intellectual property rights (IPR) around the world. Many of the investigators in the unit will have law degrees. The unit will have a team of experts in IPR, corporate accounting, investigations, and intelligence.

In addition, we are building an Office of China Compliance to focus on antidumping cases involving imports from China and to concentrate on and strengthen our expertise to address the unique problems encountered in China and other nonmarket countries.

Nothing hurts innovation like having your ideas stolen from you. We are working hard to make sure that does not happen. The World Trade Organization (WTO) has agreements barring the theft of intellectual property. Piracy by foreign businesses, particularly in China, for example, is a chronic problem for many American firms. Last fall, I led a mission to China and highlighted China's lack of IPR enforcement. I met with high-ranking Chinese officials and reiterated our continuing concern; that effective IPR protection requires that criminal penalties for intellectual property theft and fines are large enough to be a deterrent rather than a business expense.

I believe in the strong enforcement of our trade laws, especially intellectual property protection, and we are taking proactive measures to combat piracy. I have tasked Commerce agencies, such as the Patent and Trademark Office and the new Office of Investigations and Compliance, to coordinate their efforts to vigorously pursue allegations of IPR violations wherever they occur, especially in China.

The Administration is committed to exercising the legal remedies available under the WTO and under U.S. law when clear violations occur. As a matter of fact, the United States Trade Representative announced the filing of a case at the WTO regarding China's discriminatory tax rebate policy for integrated circuits.

This Administration also is working with industry through the vigorous enforcement of trade laws, and through consultations with the governments involved to address the efforts of other governments to confer an unfair competitive advantage on their industry. In one such case, after discovering that a Chinese factory counterfeited its medical products, the American company involved contacted the Commerce Department with the problem. Working with the Chinese government, this Administration ensured that the counterfeiter and distributor were arrested on criminal charges, resulting in the elimination of the counterfeiting of medical supplies valued

at roughly $15 million per year. Virtually all of the businesses I meet indicate that they are prepared to compete head-on with anyone in the global marketplace; what they are not prepared to do is compete against foreign governments as well.

While I have mentioned just a few of the steps we are taking to bolster trade enforcement and compliance, I need to address briefly and specifically our trade relationship with China. The stakes involved are high. China is growing at an extraordinary rate and is becoming a major player in the global economy. Indeed, China now represents the fastest-growing market for American goods and services. Our exports to China surged by 28 percent in 2003, while imports were up by 22 percent last year. China is our third largest trading partner. Bilateral merchandise trade reached $181 billion in 2003. China's development, and the increased standard of living literally bringing hundreds of millions of people out of poverty—are extremely positive signs.

One of the basic reasons for negotiating for 15 years with the Chinese over their accession to the World Trade Organization was to knock down the many barriers to entering China's market. The situation facing our businesses from a competitive perspective was far worse prior to China's entry into the WTO. Our firms lacked access to the Chinese market, but their businesses had relatively free access to ours.

While China's market represents an enormous opportunity, it presents challenges we must confront: we must be strong on growth and strong on enforcement. There is still a very long way to go. I can assure you that the Department of Commerce is dedicated to making sure that China and all nations plays by the rules. In 2003, over 50 percent of all new antidumping orders put in place by the Department were against China. Historically that figure has been 18 percent.

This Administration will continue to pursue China's compliance with its WTO commitments vigorously and enforce our domestic unfair trade laws rigorously and fairly. The Commerce Department is fully committed to ensuring that China complies with WTO rules, opens markets, drops barriers, eliminates state subsidies, and allows market forces to determine economic decisions. In June, I will be going to China to continue pressing their leadership for compliance, enforcement and openness.

Around the world this Administration will continue to fight so American workers will continue to succeed in the global economy.

WORKING WITH THE WORLD BENEFITS EVERYONE

Before I conclude, permit me to address a topic that has been much in the news: the impact of international competition on job creation.

In addition to trading products, American workers now compete in a global labor market. About 2.4 billion of the world's 6.3 billion people are currently part of the global workforce. About 75 percent of these workers live and work in developing countries and about 25 percent in the industrialized world. These are staggering numbers and when you consider that, with only 5 percent of the world's population, the United States generates approximately 33 percent of global GDP you get a sense of the true economic leadership position we have.

The United States greatly benefits by doing business with the world. Right now, foreign companies employ 6.4 million Americans, who, in turn, help employ millions more. Foreign business leaders realize that American workers are the best in the world. There are hundreds of foreign companies employing American workers, including Norwegian Cruise Lines, Honda, and UBS Investment Bank.

New foreign investments occur regularly, although they do not seem to attract the attention devoted to investment offshore. But foreign investments made here are creating many times more jobs than are being offshored from the United States. For example, in my home state of Texas, Toyota plans to hire 2,000 employees in the next year at its new San Antonio facility.

Foreign direct investment in the United States totaled $82 billion in 2003, over twice the amount from the previous year. In fact, since 1990, foreigners have made direct investments of $1.5 trillion in U.S. companies and factories. Increased foreign investment means more factories, more research and development and more jobs for Americans through companies based abroad. These companies account for hundreds of thousands of good jobs, including more than 700,000 in California, almost 500,000 in New York, more than 425,000 in Texas, and more than 300,000 each in Illinois and Florida.

Many of those 6.4 million jobs are at risk if this country begins to engage in the isolationism that would cause us to close down global labor markets. America cannot turn back from a global marketplace of goods and services. Engagement with the world adds jobs and growth, while a policy of economic isolation destroys them.

Our advanced financial, legal, and educational systems make the United States a prime location for investment in our businesses and workers. America must continue to strengthen those competitive advantages through the policies I have discussed today. Unfortunately, there are some who do not seem to believe that American workers can compete with workers around the world. I know we can.

It is important to have the facts: according to the Bureau of Labor Statistics, only one percent of job losses in large layoffs are associated with overseas relocation, with another two percent due to import competition. Contrast that to the 36 percent due to seasonal layoffs. Forrester Research projects a worst-case scenario that 3.3 million jobs will be lost over the next decade. Our economy creates nearly 3 million jobs each month. As the Washington Post noted, the jobs projected to go overseas represent about one percent of the job "churning" in our labor market.

IBM, for example, recently won a contract from Nokia, the Finnish telecommunications company, worth over $5 billion. Alone, this contract equals almost one-third of the entire Indian information technology software and services industry in 2003. Put another way, the Best Buy retailing chain has more revenues than the entire Indian IT sector.

In 2003, the United States exported $305 billion of Total Services, and we ran a services surplus of $59 billion. Using a simple share of GDP, U.S. exports of Total Services support more than 3.9 million jobs in the United States. In 2002 (latest data available by region), the United States ran a significant trade surplus of Total Private Services with China and India. Exports to both countries combined were $9.3 billion while imports were $5.8 billion.

There are, however, some American workers who have seen jobs outsourced or are concerned about their jobs going overseas. We all share these concerns and we are all motivated to address them. Globalism and competition are concepts, but a paycheck is a reality, and this Administration is dedicated to providing the opportunity for every American to find a job and provide for his or her family.

We will continue to strengthen the programs I described earlier to assist individuals and communities in the adjustment to a growing global economy. We will continue to work to ensure that American companies can continue to successfully compete with anyone in the world. We will enforce our trade laws and make sure others play by the rules. We will promote education and support innovation. And we will not shrink from these challenges or accept defeat. The worst thing the United States could do is to pursue isolationist policies that will cost jobs.

America has overcome the challenge of lower global wages in the past, and always come out better for it. Forty years ago, people worried about low-cost Japanese labor. Ten years ago, people feared jobs would all migrate to Mexico. Some make the same mistake when they look to China and India with concern today. The doomsayers will undoubtedly have another target in the future.

To achieve sustained growth for all Americans, the United States must continue to stay engaged in the world. We must ensure free, fair and open competition. It makes our industries more productive, while American workers and their families enjoy higher wages and better products and services at cheaper prices.

AMERICAN INDUSTRY AND WORKERS WILL MEET THE CHALLENGES AND LEAD THE WORLD

Americans are innovative, pragmatic problem-solvers who thrive on competition. We have the future in our hands, and we control our own destiny through the choices we make.

The President understands that economic security and national security are inseparable. In both areas he has laid out a complementary vision of America's leadership role. He faces these challenges with confidence, understands how to succeed in this environment, and believes in the American people. Embracing and shaping the global economy toward American values is the only way to ensure a more stable, peaceful and secure world for the next generation of Americans.

America cannot follow the path urged by isolationists who are afraid to confront the challenges we face, who refuse to be honest with the American people about those challenges, and who deny what it will take to respond. There is no protection in protectionism, only defeat and defeatism.

The United States needs pro-growth economic programs to create a better American future in a more secure and prosperous world. President Bush is dedicated to pursuing economic policies that give American companies and American workers the freedom to succeed. As American companies remake themselves and successfully meet their customers' needs, they will create long-term economic growth and new American jobs. To support this process, we must protect the flexibility and produc-

tivity that have made the American economy the envy of the world and American workers the most prosperous in history.

Mr. Chairman and Members of the Committee it is an honor to be with you today and I appreciate your time and attention. I would be pleased to answer any questions that you may have.

Chairman BARTON. We thank you, Mr. Secretary. Before I—I am trying to reset the clock here.

I want to alert the committee that there are going to be a series of four votes, beginning in the next 10 to 15 minutes. I have sent Mr. Shimkus over to vote and rush over here. We are going to keep this hearing going to maximize time for people to ask questions.

I would ask you, Mr. Secretary, if there is any way possible, to delay your departure at least a little bit, because—since this is the first time that you have appeared before this—your office has appeared before this committee, I think it would be very productive for relationships between the committee and the Department of Commerce if we could have 15 to 30 extra minutes. And when we do get——

Mr. EVANS. Granted.

Chairman BARTON. When we do get to the questions, I am going to try to let the people that deferred opening statements have a chance. If there is somebody that is way down the list that deferred their opening statement, I want to give them a chance to ask some questions. I know we have regular order, but I do think the people that deferred an opening statement should at least have a shot at a question or two.

So with that, Mr. Secretary, I am going to recognize myself for the first 5-minute question period. I want to outline to you my job history. In 1966, I went to work as a teenager for Ferris Watson Seed Company. I did a terrible job, and Mr. Watson encouraged me to seek other employment.

So then I went to work at Sprigville Store and Bait House. It was owned by my uncle, and he felt an obligation to hire me. I was not paid much, but I got to eat everything I wanted to. After a year of that, he encouraged me to seek other employment.

I then went to work for Texas A&M Industrial Engineering Department as a student. I then became a co-op student, co-op engineer at LTV, and later at Texas Power & Light. I also worked for the city of Bryan Engineering Department. When I graduated from A&M, I went to Purdue University, was a graduate assistant, worked there.

Then, when I got out of graduate school, went to work for Innis Business Forms, later became a White House Fellow at the Department of Energy. When I finished that job, I became an engineer at Arco Oil and Gas. And finally, in November 1984, the people of the sixth district elected me to be a U.S. Congressman to represent them.

About a month ago, I became the chairman of this distinguished committee. Now, if you count that all up, that is 10 jobs. So one way to score that is I am a nine-time loser. I have lost nine jobs. You can also score it that I am now a one-time winner and not only have a job but have what you would call a good job. At least I consider it to be a good job.

Now, statistically, I have lost more jobs, but in the economy today hopefully I am listed as a productive, employed person.

Would you comment on statistics on this number of jobs lost using me as an example? Have I lost nine jobs? And am I a drain on the economy? Or am I employed and working?

Mr. EVANS. Well, you know, let me come at that a couple of ways, Mr. Chairman. One is we do have an amazing economic engine here in America. We actually have 1 million new hires every week. Every week there are 1 million new hires in this economy. There are a similar number of people that leave a job—some not by choice, others by choice.

So when you think about it, we have an economy, though, that is creating about 52 million new hires every year. And that will give you a sense of the size of our economy and how dynamic it is.

More importantly, though, is we have an economy that is creating new industries every year. Yes, are we losing some through the years? Of course we are. You can take the agriculture sector of our economy. In 1900, about 40 percent of the workers in America worked on farms across America, worked in the agriculture sector of our economy.

Today, about 2 percent work on farms or in the agriculture sector of our economy. So our economy, this incredible innovative, entrepreneurship economy is always creating new jobs and new opportunities and has been for years and years. That is why it is the marvel of the world. When people look at the American economy, they are just amazed at our ability to create new industries and new jobs over the years.

And so, you know, I would say that you, like many, have moved through a life of changing jobs. I might say changing careers, too. And that is one thing that I think does concern people in this day and time when they talk—when they listen about—hear people talk about outsourcing, they worry about, you know, am I going to have to change my career? Well, some might.

But, you know, my attitude about that is in America we don't leave anybody behind, and we don't leave anybody out. And as we have an economy that continues to go through transition and change and create new industries, we must have programs that support people, so that they have the kinds of skills and kind of tools required as this economy changes, and we have—and we find new—and new industries are developed.

Chairman BARTON. Right.

Mr. EVANS. And you are—you are a productive member of the economy, Mr. Chairman, in my view, and——

Chairman BARTON. That is a debatable proposition, but thank you for telling me that.

Mr. EVANS. But——

Chairman BARTON. Well, the point—my time is about to expire, Mr. Secretary. I also want to say that in some of those, especially when I have—after I left the White House fellowship I had interviewed for a number of jobs, but I hadn't received a firm job offer. I had several months in the fall of 1982 that I had three children, one a baby, a wife, and I had no job.

And I was extremely despondent and concerned and about that, and I have total empathy with everybody in this country who wants to work, is willing to work, is able to work, and through no fault of their own we do not yet have a job for them.

Now, make no bones about it—on both sides of the aisle we know that there are many, many willing Americans that for a number of reasons beyond their control are not employed and they want to be employed. This committee—and I am sure your department and the Bush administration is going to do everything possible to give those willing workers an opportunity to not only have a job but to have a good job and a job that empowers them.

So I am not belittling that there are people in this country that want to work and right now are not working. But our economy, and with all of the statistics that you put up on the board, is doing the best job in the world today to create jobs that are good jobs.

With that, I am going to recognize the distinguished ranking member, Mr. Dingell, for 5 minutes.

Mr. DINGELL. Mr. Chairman, thank you.

Mr. Secretary, again, welcome. Mr. Secretary, I note that the administration has recently announced its intention to negotiate free trade agreements with Thailand. Automobile manufacturers now use Thailand as the platform to supply pickup trucks for all of Asia.

I note that the United States currently imposes a 25 percent tariff on pickup trucks imported into this country. Now, if that 25 percent tariff were removed, Thailand would become the platform through which manufacturers supplied trucks to the entire world.

Now, this leaves the auto workers in States like Michigan, Missouri, Minnesota, Louisiana, and Texas, just to mention a few, significantly at risk. Mr. Ron Gettlefinger, President of the United Auto Workers, in a letter to the President of the United States, a copy of which was made available to you, on November 10, 2003, addressed this matter with President Bush.

And he called on the administration to make a commitment that any U.S.-Thailand trade agreement will not change the existing 25 percent tariff on imported pickup trucks. What comment do you have to make on that? The letter has not yet been answered.

Mr. EVANS. Right. Chairman, I—it has not crossed my desk, but—or, Congressman, it has not crossed my desk yet. But I must say that in all of these free trade agreements I think one of the central goals is to bring down tariffs on both sides. And so, I would say that, one of the principles—I know it is certainly one of the President's principles with respect to free trade, is lowering tariffs to zero.

In fact, that is what we proposed through the WTO last fall. We proposed taking all industrial tariffs on goods and services to zero by the year 2015. And so if——

Mr. DINGELL. Will that be tariffs all around the world, or will the United States be the one that goes to zero? For example, we charge much larger tariffs on automobiles than do other countries. We generally charge much lower tariffs on pickup trucks than do most countries.

Mr. EVANS. Right.

Mr. DINGELL. And I am just curious, if we are going to go to zero here, and without any—without any changes to see to it that other countries abate their trade restrictions on U.S. goods, and also that other countries don't address the very difficult problem that we confront with regard to the situation on environment, working con-

ditions, labor conditions, and so forth, we are going to be in a hell of a way, Mr. Secretary. What do you have to say about that?

Mr. EVANS. Well, I say that the idea is for everybody to head to zero. It is not——

Mr. DINGELL. The trouble is, we are the one who gives, and they are the ones who take. And we are watching jobs constantly flowing overseas because of unfair trade practices. They are going to Mexico. They are going to other places. And in the case of Mexico—Mexico is part of NAFTA—it winds up as being the entry point for a lot of foreign goods into the United States, commitments made to see to it that—for example, that goods—rather, automobiles imported from Canada would have 65 percent U.S.—or, rather, North American content, now have about 33 percent U.S. content.

Unfair trading practices are constantly heaped upon the United States. And I am not criticizing you particularly, Mr. Secretary, but no administration has addressed these questions. And somebody has got to do it, and you guys are in the hot seat, and I guess—I guess the buck stops at your door, Mr. Secretary, or at least at the President's desk.

Mr. EVANS. Well, listen, Congressman, all I can do—all I can say to you is as somebody that was in the private sector for 30 years of my life, and just saying what I did earlier, there is not anything more painful than telling somebody they don't have a job. We also, it is my belief, have the strong obligation to be able to look the American workers in the eye and tell them they are on a level playing field.

Mr. DINGELL. Mr. Secretary, I know you believe that.

Mr. EVANS. Right.

Mr. DINGELL. And, Mr. Secretary, I know that generally Americans insist on that. But, Mr. Secretary, it ain't happening, and that is the concern we have. We have always folks from the administration coming up—if it is not this administration, it is the previous administrations, going right back to the day that I first took this job, and they tell us about how—about free trade. Mr. Secretary, I don't see anybody down there insisting on fair trade.

Mr. EVANS. Yes. Well, let me give you an example. I have got an example right here to use. Out of the manufacturing—because I heard this comment all across America, Congressman. When you went and talked to manufacturers across America, they want us to open up markets around the world. They are not afraid to be with the rest of the world. They want a level playing field.

Mr. DINGELL. Absolutely, Mr. Secretary. They want us to open, but they don't open theirs. Chinese manipulate the dollar——

Mr. EVANS. Right.

Mr. DINGELL. [continuing] and their currency. The Japanese do the same thing.

My time has expired.

Mr. EVANS. Okay.

Mr. DINGELL. But it just ain't—we just ain't getting treated fairly, Mr. Secretary.

Chairman BARTON. The gentleman's time—do you want to respond to Mr. Dingell before I go to Mr. Hall?

Mr. EVANS. No. We can just go on.

Chairman BARTON. Mr. Hall is recognized for 8 minutes.

Mr. HALL. Mr. Chairman, thank you. First, I want to thank my fellow Texan for the good job he is doing and for the time that he gives to this President, to this country, and to this committee. My friend—and Markey really is my friend—we—I criticize him in his area, and he criticizes me in my area, and we help one another get elected that way.

He complained about access. I think you are the first Secretary of Commerce I have seen since I have been here, and I thank you for it, for the 4 hours you are going to give us today. That is more time than all the rest of them put together, so far as I know, other than Bud Brown. I think Bud Brown was here on one occasion.

But thanks for being available, and thanks for when you are available making something happen. That has been my experience, and I hope it has been the experience of the others here.

You know, we are an energy state, and we have gone through some hard times. We have—I represent not only an energy state, but an energy district. I have Tyler, Kilgore, Gladewater, Longview, and much of the oil patch. And, you know, the independents find it, and they sell it, then, to the majors.

But the independents—we are talking about jobs. They are out of jobs, too, and that is a job profession that has atrophied away in the oil patch and in the Texas and all of the energy States. Ten of us produce energy and the rest of them use it, and that is how outnumbered we are on legislation.

But I guess one thing that is very important to me and important to us, and important I know to you as the Secretary, is energy consumption, increasing on—an increasing ratio of energy consumption as compared to the increasing production of energy, particularly in our area.

I guess your report explains—and I can't tell you just exactly where it is, but that energy consumption is expected to rise by 32 percent by 2020. By what percent is energy production expected to rise? Do you have any figures on that, or something in the back of your mind, or something at your elbow that you——

Mr. EVANS. Well, you know, Congressman, all I would say, I am sure that oil production is not going to be rising, and it is very doubtful domestically that natural gas production will be rising, unless we begin to open up some of the lands in this country that are not now open to producers and the industry.

Mr. HALL. How comfortable are you with our source of energy supply?

Mr. EVANS. Well——

Mr. HALL. And the fact that we—what we bring in may be 60 percent of it almost from countries that I don't feel comfortable with.

Mr. EVANS. Right. You know, I am not comfortable that we continue to become more and more dependent on sources of energy outside of the United States of America. That has been growing certainly on the oil side for quite some time now, and now it is beginning to grow on the natural gas side.

And, you know, I think you talk about our needs to develop our energy supplies here in America. I think that is very important, certainly something that I heard a lot about when I was talking to

manufacturers all across America. They were asking—they were concerned about available and affordable energy.

And as the President laid out when—in the spring of 2001, one of the—probably one of the second largest oil fields in North America, the strategic petroleum—ANWR is not available to us. And you talk about exporting jobs and outsourcing jobs——

Mr. HALL. It is not available. It is not politically available to us.

Mr. EVANS. That is correct. And it is—you talk about outsourcing jobs, we are outsourcing jobs, and that we are not opening up the lands of America to the industry to go develop the energy supplies that we have, and in a very environmentally sensitive kind of way that we still have vast energy supplies in this country that we could be developing with our workers that would be providing good jobs for our workers in the manufacturing and mining sector of our economy that, quite frankly, are just closed because politically, as you say, ANWR is not available. And there are a lot of lands in the West that are not available.

Mr. HALL. I don't really understand why ANWR is not available. I don't know what they are hiding up there. It is dark most of the time. I don't see how out of 19 million acres we couldn't, if it would keep our kids from having to get on a troop ship and go take some energy away from someone when we run short of it, why we couldn't work on at least 1,500 or maybe 2,000 lousy acres up there.

I don't think anybody could even find it if they would go searching for it today. So that is one answer, but that is not a political answer, because we are blocked over on the other side by it. And we have an energy bill that languishes over there that is two votes short of solving a lot of the problems that you have outlined here and answers that you have given. If we could just get that energy bill kicked loose, I have a part in it, the ultra deep part, that can solve for a long time in the future the gas needs of this country and of energy-seekers everywhere.

It has passed the Conference Committee twice. It has passed it last session. It has passed it this year, but we don't have a bill. So we don't have anything. The fact that we have negotiated that and worked it to the point to where it is with the help of Republicans and Democrats who want to solve the energy problem, but it is being blocked across the aisle from us here.

So I don't know, I guess I would ask you, what is industry doing to address this? And what is our government doing to address it? We have to do our part up here politically to pass the bills to get them to the President's desk. We have a President that will sign a good energy bill, and that is different than what we have had the last 8 years. We would have to override it, and we don't have that problem now. We have a President that will sign it.

We have a Vice President that understands energy. We have a Secretary of Commerce that is drenched in energy, that knows about energy. We are in great shape to keep our kids from having to decide what branch of the service am I going into, rather than what university can I attend, or what can I do with my life.

That is what is on the line when we don't solve our energy crisis, when we don't deliver to this President a bill that he can sign that

is a good energy bill. So what do you see that you can do, or that we need to do?

Mr. EVANS. Well, I think we need to continue to push very hard to pass an energy bill, Congressman. And I would say to you that—just putting it in perspective, when we went through an energy crisis back in the late 1970's and early 1980's, we had over 4,000 rigs running in America, 4,000 drilling rigs to drill for oil and gas in this country.

Today, we have slightly over 1,000, and the reason we have slightly over 1,000 to a large degree is because there are many areas of this country that are just not accessible to the industry of being denied access because of regulations and restrictions and rules that are in place that don't allow easy access—not only the vast lands in the West, and the Rocky Mountain region of our country, but, as we have already talked about, ANWR. I mean, ANWR—that discovery would be the—many people believe it would be the second largest oil field discovery in America.

Mr. HALL. And add to that the ultra deep thrust——

Chairman BARTON. The gentleman's time has expired.

Mr. HALL. Thank you. I thank you, Mr. Secretary.

Mr. EVANS. Thank you.

Chairman BARTON. I am going to ask unanimous consent—under the rules that we operate, we alternate between minority and majority based on order of appearance with the senior committee member and ranking member going first, and then the subcommittee, if it is a subcommittee. We have several members that deferred opening statements.

I want to give them an opportunity to ask some questions to the Secretary, since they didn't make opening statements. But if we go strictly by the rules, that requires unanimous consent. So I am going to ask unanimous consent that Karen McCarthy be recognized for 8 minutes to ask some questions. Is there objection? Hearing none, so——

Mr. MARKEY. May I——

Chairman BARTON. The gentleman from Massachusetts reserves the right to object.

Mr. MARKEY. I reserve the right to object, Mr. Chairman. And just to make this point—that if you had made that motion at the beginning of the hearing—that is, that members who spoke for 3 minutes in an opening statement would then give up their right in order to ask questions for 8 minutes if they had given up their right, because that is the way this, in effect, is going to wind up, then I think most members would have waived their rights to the opening statement——

Chairman BARTON. Well, I am——

Mr. MARKEY. [continuing] if that was the way in which you were——

Chairman BARTON. I am learning.

Mr. MARKEY. So the way this is now transpiring—and I will not object—the way this is going to transpire is that members who gave 3-minute opening statements will not be asking questions, and the members who did not will be given 8 minutes to ask questions. And I just think that as a matter of procedure that if every

member had known that before the hearing had started, then it would have been a different result in terms of——

Chairman BARTON. I understand. I am learning, and I am asking unanimous consent. And I am going to try to work everybody in, and it is just—we are trying to get this done. But there are going to be some people on the majority side that didn't give an opening statement and are not going to get to ask questions, no matter how I do it, because the Secretary has to leave to go see the President around 1.

Mr. MARKEY. I appreciate that.

Chairman BARTON. But I am also going to keep the hearing going while we are voting.

Mr. MARKEY. And I am not going to——

Chairman BARTON. I am going to miss votes.

Mr. MARKEY. I am not going to object, and I am not—and I am going to yield back, but only to say that since the Secretary is only going to be here for 24 more minutes, and if you recognize three people at 8 minutes apiece, that will be the remainder of the hearing. So everyone else who is sitting here is——

Chairman BARTON. Well, I am going to revise my unanimous consent request to recognize the gentlelady from Missouri for at least 3 minutes to ask——

Mr. MARKEY. Well, again, I am not making—I am at this point just going to yield back my time with no objection to the procedure which you have now put in place.

Chairman BARTON. All right. The gentlelady is recognized, and hopefully you will give us back some time. How about that?

Ms. MCCARTHY. I thank you, Mr. Chairman, and Mr. Markey, and I will definitely try to do that.

Mr. Secretary, thank you for taking time to be with us today, and I wanted to focus in on your testimony on page 4 when you talk about four key objectives, and reference an article I read by Robert Reich, your predecessor in this job of labor and love, to see if some of the ideas he poses for helping the economy might be ones you are considering as well.

When you talk about ensuring our economy remains the most competitive in the world, there is—you know, what is it that you are planning to do to do that? Is it things like, you know, taking another look at the businesses that get investment tax credit for buying technology that substitutes for labor? Are you going to continue that investment tax credit? Or perhaps repeal the tax credit and instead give businesses a new jobs tax credit?

In other words, you know, help companies that are trying to create new jobs rather than maintain an investment tax credit for buying technology that takes away jobs?

Your second point is to promote America's immense innovative capacity. Well, what are we going to be doing in order to achieve that? Because businesses who outsource right now, you know, can deduct from their taxable incomes the full cost of outsourcing. So that does not create new jobs.

What about limiting production to, say, 50 percent? So there is still an incentive, but we are not devastating our innovative capacity right here at home. You also mentioned, point three, preparing our workers for the 21st century economy. If the economy does not

improve, the jobs you are preparing them for are as sackers at grocery stores and other menial work. How do you propose to prepare them for jobs that actually will be good-paying jobs?

And especially buffer workers against income loss—you have got a lot of folks having a hard time finding work. Unemployment insurance should be extended. And also, are you considering wage insurance, paying, say, half the difference between the old and the new wages for up to 2 years to help with this transition?

And your fourth point is to promote strong commercial ties with 95 percent of the world's population. Let us not have that be a one-way connection and one-way tie. Let us be sure that is a double tie, back and forth, in what you are doing to achieve that fourth goal. And I will await your response.

Mr. EVANS. Thank you very much, Congresswoman. You will be glad to know that it is not a one-way street in your State. I know that in your State of Missouri there are about 114,000 good Missourians that work for foreign-owned companies.

In addition to that, there are certainly plenty of workers in your State that supply those companies as well. And so the point that I have tried to make throughout this morning, the chances I have had to speak, was that trade is a two-way street. It is a bridge which crosses jobs and products and services, etcetera.

So there are a lot of foreign companies that are here in America employing some 6.4 million workers. On top of that, trade supports about 10 million more workers. On top of that, those that work for companies that export generally have wages that are some 18 percent higher than other wages across the economy.

And so, you know, that is why I think we need to continue to engage the other 95 percent of the people in the world. When you think about it, only 5 percent of the people live here. I mean, 95 percent of the customers live outside the borders of America. And so if we are really going to grow this economy and increase the standard of living here in America, and grow more jobs here in America, it just seems to me we need to continue to engage the greater world.

In terms of competition, how are we going to—we ought to always be thinking about, how does it make it easier for our companies to compete domestically and internationally and not harder? And, of course, the President has laid out a six-point plan. What he has said is we need to make the tax cuts permanent.

I think one of the important points to make about the tax cuts, because I heard a lot about it being a tax cut for the rich, I think one of the very important points that people always need to keep in mind that seems to get lost is that when you reduce the highest marginal tax rate——

Ms. MCCARTHY. Mr. Secretary, if I might interrupt, I concur with where you are going, but are you going to propose like a new jobs tax credit? Some of the things that I raised in my question? Or, you know, the deduction for outsourcing, limit the deduction to, say, 50 percent? Could we have——

Mr. EVANS. What we have proposed is—what the President has proposed is out there, and that is what we are proposing. We will continue to work with Congress on other kinds of ideas. I am not here with any specific proposals with other kinds of ideas. What I

have said, though, is just my—my belief is the administration's belief, that, look, we don't—we don't leave anybody out in America.

And if there are programs that we need to continue to look at and strengthen like the Workforce Investment Act, I think it is very important that that Act be passed. You know, there are some $23 billion we have out there that can be used to train people to deliver the kind of skills that they need to meet the demand for jobs that are in our economy today.

So there are good programs out there that we can continue to work on, and——

Ms. MCCARTHY. Should we extend our unemployment insurance?

Mr. EVANS. We will continue to work with Congress. We haven't—I didn't come up here with a specific proposal to extend unemployment insurance. We will work with Congress on all the kinds of ideas that Congress brings to——

Ms. MCCARTHY. Will that include considering wage insurance for people whose, you know, old and new wages are very different?

Mr. EVANS. The administration does not have a position on that.

Ms. MCCARTHY. Take a look at it. There is a lot of people out there that—yes, they are finding another job after they are laid off from their other one, but it isn't nearly the wage that they had, and it is very hard to sustain a family in that new position.

I recommend this article to you. I will get a copy over to your staff, because I think we need to be looking at new ideas to really accomplish stability and hopefully then improvement of our economy.

And, Mr. Chairman, out of respect to your request, I would yield back the rest of my time.

Chairman BARTON. We thank the gentlelady. And we recognize the gentleman from Michigan, Mr. Upton.

Mr. UPTON. Thank you, Mr. Chairman. I will not use my 8 minutes, I promise you that. I have three brief questions. I am going to ask if you can answer them all in one quick answer. That would be terrific, Mr. Secretary.

First of all, I am very anxious to hear about the status of filling the new Assistant Secretary for Manufacturing, in terms of where we are in that.

Second, I want to ask about steel. We have had so many concerns, particularly with small tool and die industry, and other manufacturers in southwest Michigan, about the price shocks in steel. I am just curious to know what the administration is planning to do.

And, last, if you can just touch on a little bit—as one that supported the entry of China in the WTO, they are going to play by the rules. I am anxious to hear some concrete examples of where we are talking to the Chinese about playing by the rules, what do we see in the next number of weeks ahead. I know you have got a conference I think with the Chinese as early as next month. If you can just hit those, I will yield back the balance of my time once I hear your answers.

Mr. EVANS. Yes. Thank you, Congressman. First of all, on the Assistant Secretary of Manufacturing, we are continuing to work on that. Let me just say that this is an industry I spent 30 years of my life in, and so I know the industry very well. I know the chal-

lenges of the industry. I am responsible for this department. I am responsible for the results of this department. And I am responsible for the implementation of the recommendations that are in the manufacturing report.

We will continue to pursue putting in place an Assistant Secretary of Manufacturing. We have only had since late January to work on that, because it was not authorized until then. And so this is an effort that we have been engaged in for about 2 months now. But that is not slowing down the implementation of the recommendations that are in the manufacturing report.

As to steel, it is an area that I am concerned about. I have seen the spike in scrap steel prices around the world. I know what impact that has on our own small, medium, large manufacturers here in America. What I think we need to take a very hard look at is how other countries in the world are responding to that.

Are they starting to shut down their exports of scrap to the world, which puts more pressure on the American market? If they are doing that, I think that is something we need to take a hard look at and just see if there are any steps that we can take.

I am also concerned on that same subject when it comes to China, and are they slowing down the export to us of coke in an unreasonable kind of way, because, as you know, coke is a very important raw material in the processing and manufacturing of steel. And so if they are holding that back from us in some—by putting some artificial barrier or too high an export tax, or whatever it might be, we need to take a very aggressive and hard look at that, and we are.

With respect to China in general, I have been over there twice. The last time I was over there I was very, very clear about our concerns about their enforcement of intellectual property rights. There are reports out right now that over the course of a year there are some $20 to $24 billion of loss to our industry because of theft and counterfeiting of intellectual property.

For example, I have brought here two disks. One is software that you can buy in China for $20. You can buy this same one in the United States for $4,000. That is totally unacceptable. And as you mentioned, I have got the Joint Commission on Commerce and Trade coming over here in April. We have had candid discussions and frank discussions that we expect results.

Ambassador Zoellick, myself, Secretary Veneman, sent a letter to the Chinese delegation just this last week saying to them that if you are going to come to the U.S. and have this discussion, we want results. Bilateral discussions are interesting, but what we are really interested in are results. And so as was said earlier, I think what we are focused on is enforcement of our laws on others or enforcing their laws and rules.

Mr. UPTON. Well, thank you. I look forward to working with you on that issue.

I yield back my time.

Mr. SHIMKUS [presiding]. Thank you. And I would like to recognize Mr. Brown. I think you had an opening statement, so 5 minutes.

Mr. BROWN. Yes, and I will probably go less than that. Thank you, Mr. Chairman.

Mr. Secretary, about 3 weeks ago, I was asked to speak to the Acron area machine shop owners and operators. About 60 men and women who own small machine shops showed up. Right before I spoke, a gentleman walked up and put this on—put this pile of brochures, leaflets, auction notices, on my table. And I would just to share—I didn't know what they were at first. I would like to share them with you.

First one from Chicago, high tech manufacturing plant closing. This is a newsletter, an auction leaflet, on a fire sale, on a going out of business sale. From Pittsburgh, a plant closed, everything sells. From Mansfield, Ohio, two complete stamping and machine tool shops being dismantled and sold. From Charlotte, North Carolina, plant closing, everything must sell.

From Marion, Ohio, complete shop closeout auction. From Cuyahoga Falls in my district, Ohio, absolute auction. From Scottsboro, Alabama, precision C&C shop—job shop downsizing because of outsourcing. This is—he said this is 1 month of these—that these shops are getting it.

Now, these shop owners, overwhelmingly Republican, overwhelmingly voted for George Bush they told me, they don't think you get it. They don't think you understand that there are tens of thousands of people who have lost their jobs in these shops alone, and tens of thousands, maybe hundreds of thousands of people, that believe that they are going to lose their jobs due to trade policy, due to outsourcing, and due to the fact that we are—that you can't appoint or you haven't appointed a manufacturing job czar, even though you—the President announced it in my district on Labor Day in Richfield, Ohio.

Now, my question is: why not support Crane-Rangel? Crane-Rangel has the endorsement of the Manufacturer Association of America—the National Association of Manufacturing, has the endorsement of the AFL-CIO, it has got 170 bipartisan co-sponsors, roughly half and half. Please tell the President to support Crane-Rangel. Why is he not supporting it?

Mr. EVANS. Well, the President has laid out his economic jobs and growth agenda, and he has been very clear about what the elements of it are. We believe that if we pursue that agenda it will continue to create the conditions for a growing and stronger economy.

Mr. BROWN. But the President's plan, Mr. Secretary, is to give incentives to all kinds of companies, equally giving those incentives, in fact giving more incentives, to bigger companies and smaller companies, and not rewarding U.S. production. Crane-Rangel says if you do 70 percent of your production in the U.S., you get 70 percent of the tax break. If you do 100 percent, you get 100 percent. If you do 10 percent, you only get 10 percent. What is wrong with that concept to help these job shop owners all over the country that are seeing their shops close?

Mr. EVANS. Well, let me say, Congressman, that I think, again, the economy is strong and getting stronger. If you look at the manufacturing indicators over the last four or 5 months, they are powerful numbers. The ISM Index has been up over 60 percent, or over 60 for the last 5 or 6 months, which is a very powerful number.

I just got back from a meeting with the National Association of Manufacturers. They are all telling me that they haven't seen their order books so full, so strong, so powerful, and——

Mr. BROWN. These are different manufacturers from the ones that I have seen. Let me ask one more real brief question. Jordan Free Trade Agreement had strong environmental and worker protection provisions, supported unanimously by the House. Tom Donahue, chairman of the Chamber—President of the Chamber of Commerce, said trade promotion authority should be unencumbered by requirements to advance labor, environmental, other social agenda objectives.

Two weeks ago, Ambassador Zoellick said because of Jordan FTA trade between the U.S. and Jordan has nearly tripled in only 3 years. Who is right, Ambassador Zoellick saying Jordan is working with environmental and labor standards, or Chamber of Commerce President Tom Donahue who says they are bad? Who is right?

Mr. EVANS. Well, I didn't see—I haven't looked at the context of what Tom Donahue was saying. I do think the agreement with Jordan is working well. We are continuing to see our trade with them increase and——

Mr. BROWN. Good.

Mr. EVANS. [continuing] they will——

Mr. BROWN. Well, I hope, then, that you could advocate a similar kind of agreement with CAFTA and with FTAA with labor and environmental standards as strong as Jordan, so that we really could see that economic growth coming out of those Latin American countries.

I yield back, and I thank the chairman.

Mr. EVANS. Thank you, Congressman.

Mr. SHIMKUS. Okay. Thank you. The gentleman yields back.

Mr. Secretary, it is—I always try to——

Mr. BROWN. Mr. Chairman, I had 45 seconds. I am sorry. Mr. Stupak just wanted to make sure that his questions are in the record, if you could get unanimous consent on that. And I don't know if he can come back, but he would like that in the record if he doesn't. Okay. Thank you.

Mr. SHIMKUS. Is there objection? Hearing none, so ordered.

Again, it is great to have you here. And I think you brought up a lot of great points. Obviously, we are at a theatrical point in the year where we are going to have a lot of accusations flying back and forth. But you can't really dispute kind of some real numbers. The 5.6 unemployment rate is as low as we have seen in years.

When I mentioned the numbers, that we have got more people employed in this country than in the history of the country, people really don't believe me. We do have a perception issue out there. And when I taught high school psychology, perception turns into reality for a lot of people.

And it may not be that the individuals' jobs are lost, but they fear their neighbors' jobs, or they fear someone else's job loss. So you did, in your testimony, talk about some great—some progress being made, although it is never enough. When I talk about this—and we mentioned this yesterday—21,000 new jobs last month, well, it is not 125,000 new jobs, but it is 21,000 new jobs.

And those 21,000 people who have jobs now are better off, because—and that is better than no job increase, and that is better than job decreases. So we have got to keep this in perspective.

Tell me how the cut—with the focus on small business and reducing the tax rates for individuals, how that helps small businesses.

Mr. EVANS. Well, Congressman, as you know, no doubt, small businesses create 70 percent, 70 to 75 percent of the new jobs in America. And when you cut the highest marginal rate, about 80 percent of that savings goes to—70 or 80 percent goes to small business owners in America, the real job creators of this economy.

And so that is how—by lowering rates, you see, there are some 23 million small businesses all across that America that pay their taxes through their individual tax return. And so as you lower those taxes, that means that they have more money to hire people and grow their businesses.

Mr. SHIMKUS. Isn't that because they are not incorporated, they are sole proprietorships or——

Mr. EVANS. Sole proprietorships or subchapter S or, you know, partnership, that is correct. And that is lost in this debate. It gets lost in the debate. There is always the discussion of it is a tax cut for the rich. Well, you know, these people they are talking to are small business owners that are responsible for hundreds of thousands, millions of workers in our economy, responsible for their livelihood, for their families, have great responsibilities, that are paying their taxes through their individual tax return, and not as a C corporation, as a corporation paying corporate tax rate.

Mr. SHIMKUS. Thank you. And I know that there is a tremendous focus on manufacturing. I talk about it in my district all the time. I have a list of, you know, 500 manufacturers in southern Illinois. People would not believe that we have 500 manufacturing facilities.

It is easy for the public to see when a factory closes, because they put the chain, they close the gate, and it is empty. I always talk about if a manufacturing company in my district exports 10 percent of their product, then you could actually say that 10 percent of the workforce is attributed to foreign trade. So whether it is a tire company or an oil filter, air filter, they are all in my district, or paper products that may go overseas. The overseas part of the trade is a job employment aspect in the manufacturing that is remaining in this country.

Talk about the importance of the overseas market to our country today.

Mr. EVANS. Well, the overseas market—the export sector of our economy was responsible for about 25 percent of the growth in the 1990's, 25 percent of the economic growth. Those individuals across America—American workers that work for companies that export—make—are about 10 million employees directly. But, you know, there are a lot more that are connected to it.

Take the export of a tractor from the United States to some other country. I know that when you export a tractor, a Case New Holland tractor, for example, you export a Case New Holland——

Mr. SHIMKUS. We are John Deere folks in Illinois.

Mr. EVANS. John Deere. Why don't we take John Deere. It is pretty much about the same. When that tractor leaves America,

there are about 250 parts on it that were manufactured and made someplace else, not inside the plant itself, but suppliers to that John Deere or Case New Holland or Caterpillar, or whoever it might be.

And those jobs get lost in some of these analyses and some of the calculation. And so when I say that there are 10 million jobs directly that you can tie to exports in our economy, I am convinced there are many, many, many more out there. There is the suppliers that are supplying these exporters.

So that is—you know, it is a critical part of our growing economy. And as I say, it is the reason that we saw our economy grow. It was 25 percent of the growth in the 1990's.

Mr. SHIMKUS. And trade negotiations for me is tariffs, tariffs, tariffs. And it is an additional cost of doing service. If you want to get into that company—a tractor is a perfect example of how we—if we want to sell a John Deere tractor to Chile, we actually sell it through Canada.

Canada has a free trade agreement with Chile, so these are sold through a Canadian firm to Chile instead of our ability to have direct access to that market, because we don't really have a level playing field on the—or negotiations for a reduction in tariffs.

I also, when I have a chance, I—Grant Adonis, who works for you, I have had a lot of relationships with the steel issue, on the trade debate. I just want to give you a lot of kudos. I think he does a great job, and he has become a good friend, and he is——

Mr. EVANS. Good.

Mr. SHIMKUS. [continuing] working in the trenches. Last question has to deal with productivity. My 500 manufacturing firms, when they want to stay in this country and they want to compete, in effect, how they can still produce because of our high taxes, our highly litigious society, all of the other costs. They automate and they become more productive.

Can you talk about the productivity debate that has fallen in our country, whether that is good or that is bad? It is good because it keeps my companies in southern Illinois if they become more productive.

Mr. EVANS. Well, first of all, I think that productivity growth in this economy has been remarkable in the last several years. And those that deserve the credit are the workers on the plant floors and the factory floors, the people that have their hands on it, touching it every day, that are coming up with the innovative ideas to increase the productivity of America.

Over the last 2 years, productivity growth in America has grown at the fastest pace that it has in 40 years, which is absolutely remarkable. And, you know, that has been a challenge, though, of course, in the short term as to job creation. But productivity growth is healthy for this economy. It means higher standard of living for the American people. It means more capital to invest in the years ahead, which will in turn mean more jobs in the years ahead.

But in the short term, in terms of job creation, yes, it does create a challenge. But as we work through this ongoing recovery and strengthening recovery, no doubt productivity numbers will begin

to come down some, and we will see growth in this economy. But it is quite remarkable.

I mean, again, we are the envy of the world to have the kind of productivity numbers that we have.

Chairman BARTON. We are going to recognize the gentleman from Georgia, Mr. Norwood, for 8 minutes, or such part of that as he may consume.

Mr. NORWOOD. I will probably need it all. Thank you, Mr. Chairman.

And, Mr. Secretary, I am delighted you are here.

Mr. EVANS. Thank you, sir.

Mr. NORWOOD. I can easily associate myself with the chairman's remarks. I think you have a very good Secretary. The biggest problem I see is that you aren't running USTR also. If we could have you do both, I think the country would be better off.

I am going to go through a statement here, and there are some questions built into it, because of our time limitation, but I am very anxious about all of those questions and I will ask you to verbally answer as many as you can, and those you can't in writing.

Mr. Chairman, I am delighted that you are having this hearing today to focus this committee on the state of our country's manufacturing industry. Many of our great manufacturers have roots in Georgia, and I am proud to represent them. I have taken time to sift through the Commerce Department's strategic plan to promote U.S. trade and industry, and I have to tell you for the most part I am very pleased with your suggestions.

But I also have some concerns that I would like to have us address. Your report expressed the need to enforce trade agreements and combat unfair trade practices. I believe you mean that. I know you mean that; I couldn't agree with you more.

But having said that, I am pretty disappointed with the lack of action on a number of unfair practices. For starters, there is this problem with China's manipulating their currency, and I would like for you to address that at some point.

The undervalued yuan has contributed to our trade deficit with China. As you know, that has risen from 30 billion in 1994 to an estimated 126 million in 2003. It has hurt U.S. production, and employment in several U.S. manufacturing sectors, particularly textiles, because they are forced to compete domestically and internationally against an artificially low cost of goods from China. At some point, I would like for you to explain to me, or tell me if we are going to take any action on this issue in 2004.

Now, second, strengthening the U.S. patent system is also important, and holding our trade partners to the same laws is vital for some of our industries to grow. One case where that is not happening and could prove to be devastating to my home State if it is not fixed is with the rug and carpet industry. Another—again, one of our great industries in Georgia with strong roots, the U.S. carpet industry produces 45 percent of the world's carpet and has a $12 billion per year presence at the mill level.

The mills produce in this country about 2 billion square yards of carpet annually, in 230 plants, Mr. Chairman, located in 21 States, and a workforce in excess of 70,000 people. In Georgia, 80 percent

of the domestic industry is located within 65 miles of one little town.

Now, despite these robust numbers and significant economic input, the carpet and rug industry faces tremendous challenges from abroad, particularly China. By far the most immediate problem facing us across the country is the theft of intellectual property rights, primarily—well, India, too—China and India.

One of my questions is: can we expect action to be taken on this in 2004?

Mr. Secretary, all of us in Georgia are sending you a letter very soon asking you, in conjunction with the U.S. Trade Representative, to give a renewed priority to intellectual property theft in the context of the upcoming DOHA trade round. And I might mention at this point, the last time we had a DOHA trade round we wrote the U.S. Trade Representative a letter, which not only did they not even consider what we wanted them to do, they did the absolute opposite thing in non-reciprocal agreements, which is what Mr. Dingell is talking about.

If we are going to get all tariffs to zero in this country, then let us have reciprocal agreements with these people around the country. It doesn't do any good for us to lower—for example, lower tariffs on small trucks to zero when we let other countries keep their tariffs on them. I don't understand that. I am not smart enough to.

But I do know that the Trade Representative went right to DOHA 2 or 3 years ago and signed a non-reciprocal trade agreement, which I just can't catch on to that. Maybe you will enlighten me.

I have also great concerns about outsourcing, and I have been worried about that before 60 Minutes had their little report. I would like to hear from you a little bit about that, and I would like to start, then, for your answers with this question. I noticed in The Wall Street Journal today Walter Riston had an article in there that said, "The balance of jobs we import from abroad greatly exceeds the jobs we export from abroad." The balance of jobs we—okay. True or false?

Mr. EVANS. Well, you know, I don't think we know the absolute answer to that, Congressman, and let me—but I want to talk to that very important point.

Mr. NORWOOD. Good.

Mr. EVANS. First, let me talk about unfair trade practices and enforcement and getting other people to—because we ought to be able to look our American workers in the eye and tell them, "You are on a level playing field. We are all playing by the same rules." It is not any more complicated to me than that.

And I must admit to you that, having been Secretary of Commerce now, and honored to serve this President and this country for 3 years or so, I go around the world, and we have nice bilateral discussions, and they are interesting discussions. But I am more—I am from the private sector, and I want results. I don't want to have a lot of interesting discussions. I want results.

I expect when we go talk to other countries, and we point out deficiencies in their enforcement, point out deficiencies in their practices that are creating this unlevel playing field, there is action, and there is not just a lot of talk about it.

And that is one of the outcomes of the Manufacturing Report. We are—two areas. One is we have established what we call the Unfair Trade Practices Task Force, and this task force has the charge to look at other countries around the world and try and identify the unfair trade practices and not sit and wait for industry necessarily to come to us.

For example, we are going to monitor 30 products that are coming in from China to see if there are any signals that those send to us that are a red flag that we ought to look into further that identify unfair trade practices.

Mr. NORWOOD. Mr. Secretary, that is why I bragged on you. I know you are doing that. But the truth is, they are breaking the rules out there faster than you can catch them.

Mr. EVANS. Well, I know. And let me tell you about the other unit. The other unit we are putting in place is called the Unit of Investigation and Compliance. The lacking area, as I have seen it, has been in investigation.

We go over there, and we can talk about it, but you have got to go put the case on the table in front of them and show it to them, and say, "Look, you know, what we have done before is we will go to retail outlets"—and I will find—here is, you know, a CD that they sell for $20 over there. In America, it is $4,000. Well, what you have got to do is you have got to go over there and build the case for them.

Here is where they are being manufactured. Here is the truck that is carrying them to this store. And so we are in the process of hiring investigators that will put together the case that you can put on the table in front of them and tell them, "You have to fix this."

And so instead of just a lot of, you know, nice conversations about kind of trade policy, and you need to enforce your laws, we are going to be much more aggressive in terms of investigation and showing the facts to them. "Here is the case; now go take care of it." So those are two areas that we are going to be pursuing very hard.

In terms of outsourcing, what I would say to you is one other area within the Manufacturing Report—is a unit called the Unit of Industrial Analysis. And the idea is to have a place where you can go and develop good data, good information, where you know what the facts are. There is a lot of numbers being tossed around about outsourcing, and how big is it, how small is it. You know, nobody knows for sure. There are a lot of forecasts what it might mean. It is scaring people. It is concerning people.

Here is what I do know. I do know that foreign companies now in America employ directly about 6.4 million. In your state, they employ about 244,000. You have got in your State—you have got Honda, you have got Mitsubishi, you have got Panasonic, you have got Pirelli Tires. You have got companies like that in your State that are employing workers in your State directly.

That doesn't count the number of employees that actually support those companies. There is another however many that support them. And the other thing I know is that we now have, with the rest of the world, a trade surplus in services. In other words, we

are exporting more services to other countries than we are importing, and that includes India, and it includes China.

And so I don't know what the exact number is. What I can tell you is is that our export in services is about $250 billion. You could equate that to about 1.5 million jobs or so. And so there is a tremendous amount of jobs in the service sector of our economy that depend on exports. Are others kind of exporting to us? Yes, they are.

But I am one that thinks that—I don't know. I don't want to say on the record that I know that is true until I know what the facts are. But that is why we have this new Unit of Industrial Analysis in place, and industrial analysis, and they are working on that very question.

They are really trying to get to some good, hard numbers as to whether or not there are more foreign companies employing workers here in America than we are outsourcing someplace else.

Mr. NORWOOD. Mr. Chairman, since nobody else is here, may I ask unanimous consent that he answer the other two questions that I proposed earlier?

Mr. SHIMKUS [presiding]. Just remember that he is supposed to be gone at 12:45, so we want to be respectful of the Secretary's time.

Mr. EVANS. Let me talk about reciprocal trade agreements, because I agree with you. And that is the way we laid out the proposal to take on goods and services, that everybody goes to zero by the year 2015. We have made the commitment, and I know certainly I made the commitment to the textile sector of our economy, that when we entered into trade agreements there would be reciprocal market access.

We have one of the lowest tariff levels of any country in the world. Period. And it is time for the other countries to move toward us.

Mr. NORWOOD. Well, there is no question in my mind, Mr. Secretary, you are saved. The problem is you are in that CITA group, and there are folks in there that aren't saved. They just simply do not believe—you know, we are so busy trying to make a trade out there and try to have a trade agreement that sometimes we make a trade even though it is not in our best interest, just to say we made a trade. And if you don't have reciprocal versus non-reciprocal agreements, we don't win.

Mr. EVANS. Right.

Mr. NORWOOD. We are just—could you comment on the China manipulation of the yuan——

Mr. EVANS. Well——

Mr. NORWOOD. [continuing] on the patent system?

Mr. EVANS. Yes. Well, let me—two things. I will get to that in just a second. The other is Grant Aldonas, who we talked about earlier, he is in China right now. And he is with a group from the textile sector of our economy. So they are over there, and they are focused on it.

And they are telling them, "Look, we are going to have a meeting in America in April, and it is the JCCT. But don't—you know, we are not really interested in meeting unless you are coming over here with some results." And so we are working on that.

Let me tell you that this whole—in terms of currency, I leave that to the Secretary of Treasury. I mean, that is his area of responsibility, not mine. What I would say to you is this: that we—when I go over there and talk to the Chinese leadership, we encourage them to work toward the kinds of economic policies, fiscal policies, monetary policies, regulatory policies, that work here in America, which are free market kinds of policies, free flow of capital, markets make decisions.

That is what—that is the kind of environment you create for long-term economic growth in your country. And so certainly when I go there, I talk very clearly about the importance of free market forces determining——

Mr. NORWOOD. They are not listening too well, though. They are still manipulating.

Mr. SHIMKUS. The gentleman's time has more than expired, and we do want to be respectful of the Secretary's time. I don't want to run back over to the floor, because I have a big biannual Republican versus Democrat basketball game tonight, and I have to save my strength to beat the Democrats.

So, Mr. Secretary, thank you for your time. We appreciate your candor. We look forward to working with you as we move the economy forward.

And with that, I adjourn this hearing.

[Whereupon, at 12:42 p.m., the committee was adjourned.]

[Additional material submitted for the record follows:]

RESPONSES OF HON. DONALD EVANS FOR THE RECORD

QUESTIONS FROM HON. JOE BARTON

Question 1. What structural changes have shaped the competitive environment over the past decade? How have U.S. manufacturers either initiated or responded to these changes?

Response: There have been a number of changes, but clearly the information technology revolution and new business models which have led to a much more globalized manufacturing process—from R&D to marketing—have had profound effects. These changes have increased competitive pressures but have also offered opportunities to expand productivity. Overall, the U.S. manufacturing sector has responded in an exceptional manner to this new environment. Productivity in manufacturing increased by 40 percent between 1995 and 2000. U.S. industries, both services and manufacturing, have been the benchmarks for the rest of the world in adopting new technologies and especially new business models.

This positive response by U.S. manufacturers has helped mitigate the recent downturn in manufacturing employment. While U.S. manufacturing employment began declining in July of 2000, the majority of our trading partners, including Japan, China, France, and Germany, saw reductions in their manufacturing employment base greater than that experienced here. Today, the U.S. manufacturing sector is expanding and adding jobs, with manufacturers creating 91,000 new jobs in the past four months.

Question 2. Based on Department of Commerce roundtables with manufacturers, what are the priority issues manufacturers believe need to be addressed to ensure the competitiveness of U.S. manufacturing?

Response: The manufacturing initiative was developed largely from input we got from manufacturers during the roundtables. The President has the following six-point plan that addresses the priority concerns of U.S. manufacturers. This plan responds to the issues that are of concern to manufacturers:

1. Enhancing government's focus on manufacturing competitiveness;
2. Creating the conditions for economic growth and manufacturing investment;
3. Lowering the cost of manufacturing in the United States;
4. Investing in innovation;
5. Strengthening education, retraining, and economic diversification; and
6. Promoting open markets and a level playing field.

The Bush Administration continues to work with Congress to address many of these concerns, particularly in areas such as health care costs, eliminating junk and frivolous lawsuits, and passing a comprehensive, effective energy plan. Significant action has also been taken within the Department to strengthen U.S. manufacturing. Al Frink, a successful manufacturing CEO, will be nominated to be the first Assistant Secretary for Manufacturing. I am leading a Manufacturing Council comprised of leaders from the manufacturing sector to ensure that the voice of business is heard, and that the government is coordinated to respond to it. We have expanded and strengthened our ability to attack the underlying causes of unfair trade. We are analyzing market trends and foreign practices to identify potential unfair trade problems at the earliest stage possible, including analyzing the 30 largest categories of Chinese imports.

Question 3. What would have happened to U. S. growth rates had President Bush and Congress not enacted tax relief for American families in 2001?

Response: According to the Department of the Treasury, without the tax relief enacted by President Bush and the Congress, by the end of last year real GDP would have been more than 3 percent lower and 2 million fewer Americans would have been working.

Question 4. What would be the effect of the failure to make permanent the tax reductions President Bush and the Congress enacted in 2001 and 2002?

Response: Allowing the President's tax relief to sunset would have two negative effects on the economy. First, in the short run, the effect of higher tax rates, an increased marriage penalty, and a smaller child credit would result in a significant increase in the tax burden on the average American family. The Department of the Treasury estimates that a family of four earning $40,000 would see their taxes increase by $915 in 2005. From the economy's perspective, this tax increase would likely reduce aggregate demand, decrease utilization of capital, and reduce employment and overall economic output.

Second, the higher taxes would have long-lasting impacts on capital formation, labor supply, and, ultimately, income growth. Over time, the level of output is determined by the economy's capacity to supply goods and services, as reflected in the Nation's stock of capital, labor, and technology. Allowing the current lower rates and capital incentives to sunset would reduce the incentives to save and invest, which would in turn reduce the amount of capital available to the economy. In addition, higher taxes on labor income—the reward for working—would reduce incentives to work. Together, these changes would have long-lasting effects on growth and standards of living.

Question 5. How does the cost of the tort system in the United States compare to that in England? In the rest of Western Europe? In Japan? In China? How do these differing litigation costs affect U. S. manufacturer competitiveness?

Response: The most recent survey of comparative tort system costs was done by Tillinghast-Towers Perrin using 1998 data. The study compared tort costs as a percent of GDP in the United States with those of 11 other countries—8 Western European countries, along with Canada, Japan and Australia—and found that tort costs as a percent of GDP in the United States were approximately twice as high as in the other countries. In 1998, U.S. tort costs were 1.9 percent of GDP whereas tort costs in Denmark, the UK, France, Japan, Canada and Switzerland were all estimated to be less than one percent of GDP. Only Italy, with costs of 1.7 percent of GDP, rivaled U. S. costs. Data from China are not available.

As noted in an April 2002 Council of Economic Advisers' report, the United States bears the burden of an expensive and inefficient liability system through higher prices, lower wages and decreased returns to investment, as well as lower levels of innovation. The Manufacturing in America report released by the Commerce Department earlier this year observed that the tort system significantly undermines the competitiveness of U.S. manufacturers. According to the report, the higher awards in the United States have driven insurance premiums higher and, when liability premiums proved cost prohibitive, the insurance premiums have driven firms out of business. And, there is little evidence quantifying the indirect costs of the tort liability system. Indirect costs include litigation avoidance, unnecessary and duplicative medical tests, and the disappearance of products from the market. As a result, they understate the impact on manufacturers and the cost to the U.S. economy as a whole.

Question 6. Please describe what you learned during the roundtables from Manufacturers about how lawsuits affect their business.

Response: During the roundtables, one of the most frequently cited issues was tort reform. Manufacturing leaders pointed to a system that drives insurance costs higher even for firms that have never had lawsuits filed against them or put hazardous materials on the market. Manufacturers pay "tort taxes" in several ways. Manufac-

turers pay as product liability and other tort claims increase the cost of general liability insurance. These premiums alone can run as high as 30% of the coverage itself. Manufacturers also pay when there is no merit to claims and they ultimately prevail in litigation. The indirect costs of tort litigation are also significant—particularly time spent by managers and employees. The basic reason for the manufacturers' concern is the dramatic increase in tort claims and awards. The tort system significantly undermines the competitiveness of U.S. manufacturers. Manufacturers stated that common sense legal reforms are crucial to bolster manufacturing competitiveness. Tort reform should focus on three areas. First, there is a critical need to cap medical malpractice awards in ways that ensure that those deserving of compensation get compensated. The second is the need to restore the balance that previously existed in tort law. The third area is the need to resolve litigation over asbestos-related injuries by ensuring that those deserving compensation receive it.

Question 7. What should our long-term strategy be for acquiring additional sources of natural gas?

Response: The Administration supports enhanced production in our own hemisphere and a reexamination of restrictions on natural gas exploration and production in the United States. The Administration has also encouraged the development of liquified natural gas (LNG) terminals to increase U.S. capacity for LNG imports, and supports the building of a new natural gas pipeline from Alaska to the lower 48 states.

Question 8. What is the implication for U.S. business of more stable and reliable sources of energy? How can Congress help to achieve these goals?

Response: Industry uses more than one-third of all the energy consumed in the United States Although the Nation's "energy intensity," or the amount of energy required to produce a dollar of GDP, has declined and is expected to decline further over the next decade, energy prices and security of supply still affect U.S. businesses, particularly manufacturers. To aid our businesses, we should take action to encourage industry to modernize our energy infrastructure, increase energy supplies, and improve energy conservation and efficiency. For the past two years, the President has called on Congress to pass his National Energy Policy to address these issues.

Question 9. Your report [Manufacturing in America] explains that energy consumption is expected to rise by 32% by 2020. By what percent is energy production expected to rise? If there is a disparity, what is industry doing to address it? What is the government doing to address it?

Response: According to the Department of Energy, primary energy production in the United States in 2002 was 71.85 quadrillion British thermal units (Btu) and consumption was 97.72 quadrillion Btu. In 2020, primary energy production is projected to be 84.09 quadrillion Btu, and consumption will be 127.92 quadrillion Btu. This trend was one of the fundamental motivations behind the President's National Energy Policy (NEP).

Setting aside Congressional action on the NEP, to help bridge the projected gap between domestic production and consumption, we are implementing the National Energy Policy's recommendations that we diversify and expand our supply of energy and develop new technology. We are also building relationships with energy producers around the world. Among other actions, we created the North American Energy Working Group to strengthen cooperation with Mexico and Canada, held an Africa Energy Ministerial in 2002 to promote energy ties with Africa, held two Energy Summits with Russia to promote Russia's role as a leading world energy supplier, and continue to encourage the transportation of Caspian energy resources to world markets.

Question 10. Please comment on the U.S. lead in R&D in technology and pharmaceuticals? What are the implications for our economy of that lead?

Response: President Bush's FY2005 Budget request commits 13.5 percent of total discretionary outlays to R&D—the highest level in thirty-seven years. Both private sector and Federal R&D have significant effects on the Nation's economy. While private sector R&D is more focused on and effective at improving products and processes, federally funded activities are best aimed at sustaining basic research and improving the Nation's innovation infrastructure. For example, the National Science Foundation sponsors fundamental research and supports scientific and engineering education, both of which in turn help to underpin advances made in the private sector. The role of the National Institute of Standards Technology (NIST) in developing measurements and standards is critical to industry. Manufacturers depend on these services and standards, an important reason why the President's FY2005 Budget would increase NIST's core (laboratory) budget by 20 percent over FY 2004 enacted levels.

The United States continues to be a world leader in pharmaceutical innovation and in the pharmaceutical industry, and this leadership has broadly increased over the last decade. Several reasons include: the continuing stream of U.S. scientific achievements in the life sciences made possible by NIH funding, strong intellectual property protection, strong interests of U.S. businesses and capital markets in aggressive development and commercialization of new drug possibilities, and the increasing attractiveness of the U.S. marketplace relative to other developed countries' markets, which tend to be subject to extensive government intervention. The United States' competitive strength in this industry is also derived from the specialized and highly capable drug discovery and clinical trial companies that have emerged domestically to meet the industry's need for innovation.

Question 11. What is the implication of the declining share of worldwide R&D spending by the U.S.?

Response: Despite growing global competition, the United States is still the undisputed global leader in science. The U.S. position in the number of patents issued has remained remarkably stable since 1988 (52-56 percent), with the number of patents surging from 80,000 in 1988 to 166,000 in 2001. The United States has 78 percent more high-tech patents per capita than Europe. Since the early 80s, the United States has held the largest market share (30-33 percent) of the global high-technology market and leads in four of the five high-tech industry sectors. Pharmaceuticals are the one exception where the EU has held the lead position over the past two decades. In aerospace the United States accounts for about 50 percent of the market, high-tech services (33 percent), financial services (40 percent) and communications services (38 percent).

The United States spends one and a half times more in research and development than all of the EU countries combined and nearly three times more than Japan, the next highest investor in R&D. Current priorities set by the Administration for research funds clearly identify fields likely to be important for future economic competitiveness. President Bush's FY 2005 Budget request commits 13.5 percent of total discretionary outlays to R&D—the highest level in thirty-seven years. The quality of research produced by our universities, industrial and national laboratories is unsurpassed by any other nation. As other nations develop their research capabilities, and seek ways to reap economic payoffs from research investments, they emulate our structures and processes, as best they can. As we act to make our system even stronger, let us be proud of the strengths of the United States research and development enterprise.

Question 12. Should the R&D tax credit be made permanent?

Response: The President's FY2005 Budget proposes making the Research and Development (R&D) Tax Credit permanent. The temporary nature of the credit was originally justified as a way to review and evaluate the measure's performance. However, studies by the General Accounting Office and others have now shown that the credit stimulates substantial amounts of additional R&D. Moreover, making the credit permanent would address concerns of businesses that contend that the present short-term approach dampens the credit's incentive effects, especially in relation to long-term R&D projects.

QUESTIONS FROM HON. CLIFF STEARNS

Question 1. The Department's report, "Manufacturing in America," indicates that manufacturers are frustrated by the costs that are imposed on them by government. What are some of those costs and what can be done to alleviate them?

Response: At our roundtables, manufacturers frequently mentioned the issue of regulatory costs and the relative burdens they place on U.S. firms versus their competitors. An Office of Management and Budget (OMB) study found that regulatory costs were 3.7 percent of GDP in 1997. About half of this goes to compliance with environmental regulations and the rest is for compliance with workplace safety and product safety requirements, as well as time spent filling out government paperwork and keeping records. These costs are expensive to government as well. Government must manage these regulatory programs, which consequently creates a drain on tax revenues. The most common compliance costs for manufacturing companies are related to environmental regulation, workplace safety, and tax compliance/employment rules. We also know that these costs fall hardest on small manufacturers with 20 or fewer employees. These costs greatly affect cost competitiveness and can offset the benefits of productivity gains many times.

The Administration has slowed the increase in regulatory costs produced by new regulations reviewed by the OMB by 70 percent compared with the previous Administration. Nonetheless, the overall cost of compliance has risen significantly over time. To combat these rising costs, OMB is leading a process to reduce the burden

of regulation on manufacturing enterprises. First, OMB is establishing an inventory of potential regulatory reforms that would lower the cost of manufacturing. To this end, OMB put out a Federal Register notice seeking public comment on overly burdensome regulation by May 20. OMB should analyze and prioritize these reforms based on the comments received. Further, OMB should rigorously apply its recently developed guidance on regulatory impact analysis to any proposed rules that could influence the costs imposed on the manufacturing sector.

Question 2. How has the passage of the "Jobs and Growth Tax Relief Reconciliation Act" helped the manufacturing sector, specifically? What further work needs to be done in the tax area to help the manufacturing sector?

Response: While the Jobs and Growth Act has helped boost economic growth and job creation in general, its provisions were of particular benefit to America's manufacturers. Manufacturing requires massive investments in plant and machinery. The President's tax relief—including the across-the-board rate relief, lower taxes on investment, and increased expensing and depreciation limits—has reduced the cost of making capital investments in vehicles, computers, and machines. A lower cost of capital makes American manufacturers and their workers more competitive.

Specifically, the Jobs and Growth package first reduced tax rates across-the-board. This tax relief was important not only for America's families, but also for the 90 percent of American businesses organized as S Corporations, partnerships, and sole proprietorships, including most of America's manufacturers.

Second, the Jobs and Growth Act reduced the taxes imposed on manufacturers when they invest in new capital equipment. Smaller businesses now qualify for the higher, $100,000 expensing limit. For smaller businesses, they can now deduct up to $100,000 in investments in trucks, computers, and other equipment. Larger businesses are eligible for 50 percent bonus depreciation.

Third, the Jobs and Growth Act reduced the marginal tax rates on investment income to just 15 percent. For American businesses, this reduction means equity capital can be raised less expensively, making our corporations more competitive in the global marketplace. It also reduces the bias towards debt and away from equity, resulting in better capital allocation and efficiency in the long term.

The net result of these increased deductions and lower marginal rates is a dramatic reduction in the cost of capital for America's manufacturers. That means America's manufacturers can better afford to purchase the equipment they need to stay competitive and to make their workers more productive. It also means their American customers can afford more, since they benefit from the tax savings as well.

In the year since the President signed the Jobs and Growth Act, there have been numerous signs that these policies are working. Industrial production is up; capacity utilization is up; exports are up; and durable goods orders are up.

While there are numerous ways to help manufacturers through the tax code, the most direct means of continuing the success of the President's Jobs and Growth package and help America's manufacturers is to make its provisions permanent.

Question 3. Does our tax policy with regard to income derived from foreign investment inhibit American manufacturers from competing, both domestically and internationally? How so?

Response: While it is clear that manufacturers understand their future success will increasingly depend on their ability to compete and sell goods in a global marketplace, your question regarding the net impact of our tax treatment of foreign investment on manufacturing would be better directed to the Department of the Treasury.

Question 4. Are there state or local tax laws that the Department has identified as particularly problematic for manufacturers? Does the Department have a view on how they might be changed?

Response: Several manufacturers expressed their concerns regarding state and local tax issues. They suggested changes to the most prevalent forms of state and local taxes. Many states and localities rely more heavily than the Federal Government on property and other taxes that are fixed in dollar amounts or in a fixed percentage of asset value. Those taxes become far more burdensome in an economic downturn, when revenue and income fall, but tax liability does not. The net effect is an increase in tax on manufacturing firms at a time when the economy is weak, exactly the opposite of what good tax policy would suggest. Manufacturers' comments suggested a need to shift from taxes based on fixed values, to those tied to income, and to rely more heavily on consumption as the basis for defining income subject to taxation.

Question 5. What is the cost to U. S. manufacturers of frivolous litigation? Can you quantify the cost in terms of jobs lost?

Response: While I am not aware of any estimates of the exact cost of frivolous litigation to U.S. manufacturers either in terms of dollars or jobs lost, there is no question but that such litigation exacts a steep price. The *Manufacturing in America* report released by the Commerce Department earlier this year noted that manufacturers pay a penalty in the form of legal fees even when there is no merit to claims and manufacturers ultimately prevail in litigation. The report further observed that the indirect costs of tort litigation are also significant—particularly the time spent by managers and employees, who would otherwise focus on improving operations, raising productivity and expanding sales.

Question 6. What aspects of the U.S. tort system are most damaging to U.S. manufacturing and are therefore, most ripe for reform?

Response: The reforms that would most immediately help U. S. manufacturing would be passage of an asbestos bill and medical malpractice reform. The continuing asbestos litigation remains a contingent liability creating a cloud over the entire manufacturing sector and preventing affected individuals from receiving the assistance they need to cope with their medical bills. Medical malpractice reform would help stem the significantly higher costs that manufacturers pay for employee health care benefits as a result of increasing medical liability costs.

Question 7. Have manufacturers been able to recoup the cost of rising healthcare costs through increases in the prices of the products they sell? If there are disparities between the respective rates of increase, can you quantify them?

Response: Health care costs have risen generally more than other prices. Between 1995 and 2003, the Consumer Price Index (CPI) for medical care increased 35 percent, while the CPI for All Urban Consumers (CPI-U) increased only 21 percent. For manufacturing, Producer Price Index increases during this period totaled only 10 percent. The increase in prices of manufactured goods certainly did not keep pace with the rising costs of health care. On the other hand, productivity in manufacturing, as measured by output per hour, has increased 40 percent during this period and these improved efficiencies have help to offset some of the increases in other costs. This disparity between producer price increases and health care price increases is another reason the President's goal of reducing health care costs is of critical importance to America's manufacturers.

Question 8. A significant amount of money is spent by the manufacturing sector on complying with the regulatory regimes to which it is subjected. Approximately how much money do manufacturers spend on regulatory compliance annually?

AND

Question 9. How do regulatory costs imposed on American businesses compare with regulatory costs imposed on competitors by foreign governments?

Response: We have made reference to the first part of this question in the report, "*Manufacturing in America*," using a 1997 report by the Office of Management and Budget. OMB estimated that regulatory costs amounted to 3.7 percent of GDP in 1997. Of that amount, about half reflected compliance with environmental regulations and the rest for work safety, product safety, and the time filling out government paperwork and keeping records.

According to a 2003 study by the Manufacturers Alliance for the National Association of Manufacturers, inter-country comparisons of regulatory costs are rare. The study did include some estimates based on earlier OECD work to the effect pollution abatement costs as a percent of the value of manufacturing output were 3.5 percentage points higher on average in the United States than for our nine largest trading partners.

QUESTIONS FROM HON. MICHAEL BILIRAKIS

Question 1. Many of my constituents have expressed serious concerns about the outsourcing of American jobs to overseas operations. They simply do not understand why companies are relocating jobs offshore during a time when so many Americans who want a job are out of work. What are the figures for American companies' jobs shipped overseas versus jobs kept at home? What are the figures for foreign companies' jobs created in the United States?

Response: While the loss of a job is always regrettable, the President believes the most powerful remedy for this problem is a growing economy that can ensure every American who wants a job is able to find one. On the other hand, putting workers at a competitive disadvantage through economic isolationism would have a negative effect on our economy and domestic job creation. I am convinced that the President's growth agenda has put the Nation on the path toward that essential goal. His policies to reduce taxes and other costs to America's job creators are working, as are efforts to open foreign markets to American goods and services. Tax burdens are down and exports are up. Since last August, we have seen over 1.4 million jobs cre-

ated. Over the last nine months we've seen over 1.4 million jobs created while the unemployment rate has fallen from 6.3 to 5.6 percent. Meanwhile, over the past half year, exports have grown at a 23 percent annual rate, the fastest 6-month rate of growth in almost 10 years. 12 million American workers rely on exports for their jobs.

As for statistical measurements, the Bureau of Labor Statistics, through the Mass Layoffs Statistics program, provides a limited measurement of jobs lost to overseas relocations. I would defer to the Department of Labor on the use and limitations of this data.

The Bureau of Economic Analysis (BEA) collects annual data on the operations of U.S. affiliates of foreign-owned companies. In 2001, the latest year for which (preliminary) statistics have been published, employment at such operations was 6,371,900 or 5.6 percent of U.S. private-industry employment. Employment growth at U.S. affiliates of foreign-owned companies has averaged 5.0 percent per year since 1977, when employment at these companies was 1,218,700 or 1.7 percent of U.S. private-industry employment (Zelie, William J., "U.S. Affiliates of Foreign Companies," Survey of Current Business Vol. 83, No. 8, August 2003, p. 45). Policies to isolate the United States from the global marketplace could lead to retaliation by other nations, putting many of these 6 million jobs at risk.

Question 2. What are the primary reasons manufacturing and information technology companies move operations offshore? Which ones are attributable to public policy that makes it more expensive to do business here at home? Which ones are attributable to international conditions?

Response: U.S. Government statistical agencies do not survey firms on the reasons they move operations offshore. However, it appears that many U.S. multinational corporations locate operations offshore to be close to their customers in other countries. In 2001, 65 percent of sales by foreign affiliates of U.S. parent companies were to customers located in the same country as the affiliate, and another 24 percent were to customers in other foreign countries, mainly in the same economic region as the affiliate's host country. Only 11 percent of such sales were to customers in the United States ("A Note on Patterns of Production and Employment by U.S. Multinational Companies," Survey of Current Business, March 2004, pp. 52-3).

Many press accounts and private sector studies suggest that firms relocate jobs offshore because they believe they can reap significant cost savings by hiring developing country workers who are paid substantially less than similarly qualified U.S. workers. It should be noted, however, that in 2001 (the most recent year for which data are available) 6.4 million U.S. workers were employed at U.S. affiliates of foreign-owned companies. Furthermore, well over half the employment at foreign affiliates of U.S.-based companies is located in high wage countries (i.e., the European Union, Canada, Japan, and Australia). Both of these facts demonstrate that wage differentials are not always the motivating factor in job relocations and may be overshadowed by other reasons.

Question 3. What public policy incentives can Congress and President Bush enact to encourage companies to maintain these jobs in the United States?

Response: The President's economic policies are designed to reduce costs to America's job creators while opening foreign markets to their products and services. The President's six point plan attacks the rising costs that hurt American job creators. It would reduce health care costs, make energy more affordable and reliable, eliminate frivolous lawsuits, reduce regulatory burdens, and make the tax relief permanent. All would reduce costs and increase the competitiveness of American businesses and their employees.

Opening markets to U.S. exports is a key part of the President's six-point plan for sustaining America's economic recovery and creating new jobs for American workers. Open trade in goods and services will help eliminate incentives for firms to relocate jobs in order to circumvent trade barriers. It will also help encourage foreign companies to set up and expand operations in the United States.

In addition, the President's education, job training, and immigration policies are designed to address companies' concerns about the availability of skilled workers in the United States. The President's FY 2005 Budget commits significant resources to helping U.S. students and workers obtain job training and attend courses to help them acquire the skills that firms need to compete in a global marketplace. Moreover, one of the principles of the President's immigration reform proposal is to serve America's economy by matching a willing worker with a willing employer. If no American worker is able and willing to take a job, then a reformed immigration program should provide labor to fill that job. To the extent that job relocations abroad are motivated by shortages in certain key skills, the President's immigration reform initiative will help keep such jobs in the United States. Finally, the rest of the

President's six-point plan—on health care costs, tort reform, energy supplies, regulatory streamlining, and permanent tax cuts—will foster robust economic growth, which is the most effective way to keep jobs in the United States.

Question 4. This Committee and the House have recognized the importance of controlling rising health care costs by passing medical liability reform legislation and creating association health plans. Unfortunately, the Senate has not been able to address these issues. How have increases in health care costs affected the competitiveness of U.S. firms? What is the effect of medical malpractice awards on medical costs? How would controlling medical liability costs make us more competitive?

Response: Unfortunately, we do not have the data to answer this question in greater detail, and it would be best raised with the Department of Health and Human Services (HHS). We would be glad to work with HHS to find an answer to this question.

Question 5. How would the implementation of association health plans affect the manufacturing sector?

Response: Studies show that association health plans (AHPs) could save small employers and their employees as much as 25 percent on health insurance costs. According to an April 2004 Department of Labor press release citing these studies, AHPs would allow small businesses to join together across state lines through their trade and professional associations to purchase health benefits, reducing the market and financial barriers that they face. Small businesses would enjoy greater bargaining power, economies of scale, administrative efficiencies, and more uniform regulation, giving them greater access to affordable coverage.

Question 6. What has been done to help control the costs of health care for employers and employees? What still needs to be done?

Response: The President has advanced a number of proposals to make health care more affordable for families and businesses. In December 2003, the President signed into law the Medicare Modernization Act that is already making prescription medicines more affordable to seniors. In addition, the Act has already made health insurance coverage more affordable to tens of millions of Americans under the age of 65 through a product known as health savings accounts.

Beginning in 2006, prescription drug coverage will be available to 40 million seniors and people with disabilities through the Medicare program. This voluntary drug benefit will provide the greatest help to those in greatest need, with richer benefits for beneficiaries with low incomes and for those with high prescription drug costs, regardless of income. Middle income seniors with moderate drug expenses also will benefit from the new program. In addition, the program will encourage employers to continue providing prescription drug coverage to their retirees through a federal subsidy. This subsidy will make retiree health coverage more affordable for employers and more secure for millions of retirees.

Medicare beneficiaries will not have to wait for the new benefit to save on their prescriptions. They can now enroll in a Medicare-approved prescription drug discount program that will save them 16 to 30 percent off the retail price of most brand name medicines and 30 to 60 percent off the price of generic drugs at their neighborhood pharmacies. Deeper discounts are available to those seniors who prefer to have their prescriptions filled through the mail. In addition to the discounts, low-income beneficiaries will receive $1200 in subsidies over the next year and a half to help them pay for their medicines at the discounted prices.

Making prescription drugs more affordable for seniors is only part of the story of the new Medicare law. It also permits individuals under age 65 to establish health savings accounts (HSAs), a new product that will allow people to use tax-free dollars to pay for their ordinary medical expenses and save for future medical needs. These accounts, coupled with major medical insurance that is much more economical than standard health insurance coverage, will put health insurance premiums within the reach of individuals whose employers do not sponsor health coverage.

HSAs also provide a more affordable product for businesses large and small that are struggling with the cost of providing coverage to their workers. Businesses that already provide insurance can contribute to both the lower health insurance premium and the tax-advantaged HSA. Businesses that previously could not afford to offer health insurance can now either pay all or part of a lower-cost high-deductible policy or make tax-advantaged employer contributions to their employees' HSAs. Early reports suggest these accounts are working well, reducing health insurance premiums, and cutting administrative costs to doctors and hospitals. The Administration is working to make HSAs more widely available next year, including making them available to federal workers.

Small businesses also would benefit from the President's proposal to allow them to form Association Health Plans, joining together to purchase insurance coverage. Low-income individuals will benefit both from the President's proposed refundable

tax credits to help them pay for insurance coverage and from his expansion of community health centers, which provide free or low-cost medical care in medically underserved areas.

The President also has sought to stem the tide of rising health care costs by rooting out fraud and abuse and by advancing legislation to eliminate "junk lawsuits" that make health care cost more than it should. And he has taken the lead in improving health care quality and efficiency by advancing legislation to reduce medical errors and by promoting health information technology. Health information technology (IT)—including electronic medical records and electronic prescribing—can provide the right information to doctor and patient at the time of care to guide treatment decisions. Health IT has the potential to help reduce health care costs by assuring that appropriate care is provided, by reducing the amount of inappropriate care, by preventing costly medical errors, and by improving the efficiency of our health care system. To achieve these goals, the President issued an Executive Order in May, 2004, creating a health IT coordinator within the Department of Health and Human Services.

In addition, the Centers for Medicare and Medicaid Services (CMS) is implementing e-prescribing in the new Medicare prescription drug program to reduce medication errors and cut administrative costs. Finally, CMS is implementing a major new disease management program within Medicare that will target services to chronically ill individuals, improving the quality of care that they receive and potentially reducing costs by averting expensive hospitalizations.

Question 7. How can health savings accounts, which were included in the recently enacted Medicare legislation, help to control health care costs?

Response: HSAs help control health care costs by putting consumers in the driver's seat. High deductible (at least $1,000 for individuals and $2,000 for families) major medical insurance that protect families against catastrophic medical costs, joined with tax-free accounts for ordinary medical expenses, will give consumers more control over their health care spending. Empowered consumers will be more cost-conscious, especially since money that they do not spend on health care will remain in their accounts and grow tax-free.

Question 8. The Fact Sheet, "*The Presidential Determination on Steel*" issued by the White House Office of Communications on December 4, 2003, stated:

> "President Bush is committed to America's steel workers and to the health of our steel industry . . . Steel import licensing, established when the safeguard measures were imposed, will continue to provide WTO-consistent data collection and monitoring of steel imports. This will enable the Administration to quickly respond to future import surges that could unfairly damage the industry."

The President's Proclamation of the same date stated that "the licensing and monitoring of imports of certain steel products remains in effect and shall not terminate until the earlier of March 21, 2005, or such time as the Secretary of Commerce establishes a replacement program." You made several comments to the media on December 4, 2003, regarding your commitment to the steel import monitoring and licensing system and indicated that it would be expanded to include steel products which were not subject to 201 tariffs and quotas. Are you still fully committed to this effort?

Response: Since the President's announcement last December, we have continued to closely monitor the imports of those steel products for which the President implemented import relief pursuant to Section 201, as well as general market conditions. As a result, accurate information regarding such imports is being made available to the public on an expedited basis. There have been significant changes in the market in the last six months. Current market conditions are strong—steel prices are high and steel imports are still at fairly low levels. We understand the need for a licensing and monitoring system, and appreciate that domestic steel producers as well as importers continue to feel strongly about this issue. The Administration is continuing to evaluate the current system and will ensure that it remains an effective monitoring tool.

Question 9. Do you have a plan to expedite the adoption of these expanded regulations? When do you intend to begin the public comment period with regard to the replacement system?

AND

Question 10. When do you estimate the replacement system will be up and running? Will you be able to meet that date?

Response: As we review the current licensing and monitoring system, Commerce has been informally gathering information from the domestic steel industry, steel consumers, registered licensees and other parties that have expressed interest in

the current system. We are carefully considering all parties' comments and will take them into account before making any decision.

QUESTIONS FROM HON. RICHARD BURR

Question 1. I wrote you this month about the investigation into whether or not China was transshipping textile and apparel goods through Vietnam, and asked specifically when members of the Congressional Textile Caucus could expect to see the report—which I understand was submitted to Commerce by Customs last November. Can you provide me with an update on the investigation or report?

Response: As you know, we negotiated a unique provision in the U.S.-Vietnam Bilateral Textile Agreement allowing for consultations to address any discrepancies in the import figures that constituted the basis for the negotiated limits. In order to determine whether data discrepancies existed, U.S. Customs and Border Protection (CBP) sent the largest number of Textile Production and Verification Teams ever sent at the same time to one country to review this issue. These teams conducted an extensive review of Vietnamese factories and then dedicated a substantial amount of time to analyzing the results.

After carefully reviewing CBP's findings, the United States requested consultations with Vietnam on February 12. Those consultations were held March 17-18, and Vietnam provided the United States with additional data at that time. Under the Bilateral Agreement, if no agreement is reached within 90 days of our request for consultations, the United States may take action to resolve instances where there is clear evidence of data discrepancies.

The 90-day period expired on May 12, and we have adjusted Vietnam's 2003 and 2004 quotas to reflect discrepancies in the data upon which the quotas were based. The Congress has been notified, as well as the Vietnamese Government and the importing public.

Under Secretary Grant Aldonas has briefed members of the House Textile Caucus on this issue and we have provided to the Caucus a summary of the CBP report.

Question 2. Earlier this month, Representative Frank Wolf introduced legislation that would shift trade agreement enforcement from the Office of the United States Trade Representative to the Department of Commerce. Has the Administration taken a position on the proposal?

Response: Commerce, USTR and other trade-related agencies and departments work closely to ensure effective enforcement of our trade laws. The Administration believes that the current statutory allocation of responsibilities provides the best opportunity to leverage the resources and expertise of each agency. The Administration is focused on real results. The recent U.S.-China JCCT (Joint Commission on Commerce and Trade) is an example of effective inter-agency coordination of trade enforcement efforts. In these meetings, we were able to resolve a number of critical issues for America's farmers, workers and businesses. Specifically, at the JCCT this year, Vice Premier Wu Yi committed to a detailed action plan to reduce the rampant piracy now costing U.S. companies billions of dollars in lost sales. China committed to increased penalties for IPR violations, and a crackdown on violators with tougher enforcement actions. Concerning standards and industrial policies, China agreed at the JCCT to postpone implementation indefinitely of a troublesome new mandatory standard for wireless computing, and instead promote its approach through international standards bodies, and China also agreed to adhere to principles of technology-neutrality with respect to the adoption of 3G standards for telecommunications.

China agreed to establish a working group that will allow the U.S. Government to review with China non-market-based policies and practices, e.g., subsidies for state-owned enterprises, etc., that can create an unlevel playing field for U.S. companies. China also agreed to accelerate the steps needed to allow our U.S. companies to import, export, distribute, and sell their products in China. A comprehensive description of JCCT outcomes can be found at http://www.mac.doc.gov/china/JCCT/outcomes—Commerce.pdf.

Question 3. What is the Administration prepared to do if China does not come to the table regarding a comprehensive quota agreement post-2005? It is my understanding that the Chinese are refusing to even discuss the issue.

Response: As you point out, China has not expressed an interest in reaching a comprehensive arrangement on textile trade post-2005. However, under China's WTO Accession Agreement, the United States has the right to impose limits on imports from China on textile and apparel products which are, due to market disruption, threatening to impede the orderly development of trade in these products. (The United States must first consult with China to attempt to reach a mutually satisfactory solution.) The United States intends to exercise its WTO rights in instances

where we believe imports from China are playing a role in disruption of the U.S. market for specific textile and apparel products. As you know, we chose to exercise our rights and impose quotas on imports of three such products (brassieres, dressing gowns, knit fabrics) last December. Those quotas remain in place.

Question 4. Will the Administration self-initiate use of the safeguards on January 1 if China does not cooperate?

Response: Under the Procedural Framework for considering China-specific textile safeguard actions issued by the Committee for the Implementation of Textile Agreements (CITA) last year, CITA may self-initiate such a safeguard action. Of course, there must be a body of economic information available to demonstrate China's role in the market disruption. In many instances, necessary information is available only to the U.S. industry manufacturing the product. It will be important to have the cooperation or support of the affected domestic producers before pursuing a safeguard remedy.

Question 5. Has the Administration considered the implications for the war on terror of the looming phase-out of textile quotas? The phase-out could have severe implications for several "front line" countries, such as the Philippines, Indonesia, Malaysia, and Bangladesh—not to mention roughly 700,000 domestic textile workers.

Response: We have received private expressions of concern from some countries about the impact of removal of quotas on their domestic textile and apparel industries. However, no country has formally sought to rescind, renegotiate, or delay the Uruguay Round agreement, binding on all WTO Members, to eliminate quotas on January 1, 2005. The Uruguay Round Agreements Act implements this WTO obligation to eliminate textile quotas, and we will comply with this legal requirement.

Question 6. What can you tell me about the Administration's actions in the face of China's ongoing efforts to "corner" the global scrap metal market?

Response: The Department of Commerce has been actively working with relevant agencies to review the controls that some of our trading partners, including China, have placed on key raw materials. The Administration is reviewing these measures to assess what effect they are having on domestic and world markets, and to identify any appropriate actions that may be taken.

The Department shares your concern regarding the potential impact of the recent price increases of key raw material inputs on U.S. industry. In October 2003, spot prices for a key raw material input—ferrous scrap—began to rise sharply in the United States, peaking in March. While ferrous scrap prices have dropped since March, the Administration plans to follow market developments closely in order to determine what actions may be appropriate.

The Department of Commerce is also reviewing, with the Office of the United States Trade Representative, the extent to which export controls imposed by our trading partners may be inconsistent with WTO requirements. The U.S. Government has also been meeting with officials from our trading partners and frequently raising U.S. concerns about export restraints on key raw material inputs in several different intergovernmental fora. In addition, on April 27, USTR Zoellick and I sent a letter to the Russians and the Ukrainians urging them to eliminate export duties on ferrous scrap.

The Department's Bureau of Industry and Security is also in the process of reviewing a petition requesting the implementation of monitoring and export controls on copper and copper-alloy scrap. Procedures for the submission and review of this petition, as well as any determination whether to impose monitoring or export controls, are provided for in Sections 7 and 3(2)(c), respectively, of the Export Administration Act of 1979, as amended. The findings of the review should be published on July 21, 2004, as required by law.

Question 7. Has the Administration or Department taken a position on Rep. Phil English's H.R. 3716, which would allow countervailing duties to be applied to non-market economies [NMEs]?

Response: Commerce does not currently apply countervailing duties (CVD) law to non-market economies, and this practice has been upheld in the courts in *Georgetown Steel Corp. v. United States.* In that case, the court affirmed Commerce's view of NMEs as devoid of the kinds of market benchmarks necessary to identify a subsidy. The court also relied on Congress's 1974 effort to address unfairly traded NME exports through the antidumping (AD) law by enacting the factors-of-production methodology. Commerce has re-affirmed *Georgetown* many times, most recently in the 1997 preamble to the post-Uruguay Round Agreements Act CVD regulations. Congress enacted substantial amendments to the CVD law in 1988 and 1994 without disturbing Commerce's practice in this area.

The Department recognizes that the reasoning underlying the *Georgetown* decision was informed by the nature of certain non-market economies as they existed 20 years ago, and that China's economy has undergone many reforms over the past

two decades. However, any attempt to apply the CVD law to non-market economies would raise complex issues of policy and methodology, including implications for antidumping policy and practice that could lead some to fear a weakening of that important remedy. The Department, therefore, continues to believe that this question should be addressed with care and consideration.

Question 8. The furniture industry in my state is under significant pressure from low-cost, offshore competition AND high production costs. External overhead costs are estimated to add at least 22.4% to unit labor costs of US manufacturers—nearly $5 per hour worked—relative to their major foreign competitors. What is the Administration doing to address some of these costs?

Response: As detailed in the Department of Commerce's recently released report, "*Manufacturing in America,*" the Administration has set out a plan to reduce the cost to employ American workers by decreasing red tape and eliminating unnecessary and costly regulations. Many U.S. Government agencies are involved with this initiative.

The Office of Management and Budget will review federal regulations to assess their impact on manufacturing competitiveness. The Administration will study ways to implement association health plans, promote health savings accounts, and pursue other opportunities to make health care more affordable and accessible to workers.

The manufacturing report made several recommendations related to improving manufacturing innovation through R&D. A high level interagency working group on manufacturing R&D has now been established within the National Science and Technology Council. Chaired by Commerce, this group is actively engaged, and is planning a thorough review of federal R&D programs important to manufacturing. This group will serve as a forum for resolving issues associated with R&D policy and programs.

In February, 2004, the President issued an Executive Order making manufacturing-related R&D a high priority for the over $2 billion distributed through the Small Business Administration's (SBA's) Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs. The Executive Order requires all executive departments and agencies with one or more SBIR or STTR programs to take action to advance the policy under the Executive Order and submit reports to the SBA Administrator on their efforts. The SBA Administrator is required to consult with the Director of the Office of Science and Technology Policy to coordinate submission of the reports by the heads of the departments and agencies.

These programs, in addition to the new ideas that will come from the Department's Manufacturing Council, will go a long way towards addressing these costs.

Question 9. Rep. Sam Graves of Missouri has introduced legislation, H.R. 3949, which would delegate to the Under Secretary for International Trade the functions relating to Trade Adjustment Assistance for firms. Has the Department taken a position on this legislation?

Response: Yes, the Department has taken a position on this legislation. It is my firm belief, after looking closely at this issue, that America's small- and medium-sized businesses are best served with the Trade Adjustment Assistance (TAA) for Firms program continuing to reside within Commerce's Economic Development Administration (EDA).

The TAA for Firms program has a natural synergy with the mission of EDA—to increase prosperity by promoting comprehensive, entrepreneurial, and innovation-based economic development strategies to enhance the competitiveness of regional business environments resulting in higher skill and higher-wage jobs. EDA offers an extensive set of programs that assist whole communities and regions negatively affected by economic conditions, including those affected by import competition. These programs include planning and technical assistance, public works and development facilities, and economic adjustment assistance. The TAA for Firms program is just one of the many programs administered by EDA that allow for a comprehensive approach to providing communities, regions, and their businesses the resources and contacts they need to adjust to challenging economic conditions. Additionally, EDA has the resources and experience in assessing applications for adjustment assistance. Assisting communities and firms located in affected communities requires a broad approach, and I believe that this approach is best served with the retention of TAA for Firms within EDA.

To meet the challenges and needs of our manufacturing base, I have directed our Commerce Department bureaus, including EDA, International Trade Administration and its new Assistant Secretary for Manufacturing and Services, the Technology Administration and its National Institute of Standards and Technology, and others to better coordinate their individual areas of expertise and resources to provide manufacturers the full benefit of varied U.S. Government programs and services. We will

also work to coordinate efforts with other federal agencies, as well as state and local entities, to collaboratively improve the value that we all bring to U.S. manufacturing. To this end, we have created the Manufacturing Council to institutionalize a channel of communication between manufacturers and the public sector. Our recently released report, Manufacturing in America, also recommends establishment of an interagency working group to communicate effectively across the Federal Government on issues of concern, and an intergovernmental coordinating committee to share sound ideas and programs across federal, state, and local governments.

QUESTIONS FROM HON. BARBARA CUBIN

Question 1. Mr. Secretary, can you comment further about what you believe the future of the Manufacturing Extension Partnership program to be?

Response: The 2005 Budget maintains the 2004 level of funding for the Manufacturing Extension Partnership (MEP). MEP was originally intended to be comprised of 12 federally supported centers, with federal funding ending after six years. In its 15 years of operation, the program has expanded away from this original design to include 400 locations, and Congress has removed the sunset provision. Funding for the MEP centers is a cost-sharing arrangement consisting of support from the federal government, state and local government, and the recovery of fees for services. Given advances in manufacturing and technology, it is appropriate to evaluate MEP operations and take steps for continuous improvement. For example, the Department plans to recompete the Centers to ensure that funds are targeted to Centers that are well qualified and effective. Also, the Administration proposes to coordinate MEP fully with other Commerce Department programs that are helping manufacturers to be more competitive and expand markets. Through this coordination, the Commerce Department can more closely link the technical and business staff employed by the MEP centers located around the country with trade promotion specialists in the Commerce Department's International Trade Administration (ITA). In addition, ITA has experts with in-depth knowledge of various sectors of industry. By coordinating MEP field agents and these sector experts, the program can be a more effective national resource to help small manufacturers.

Question 2. As a Member who's been working to establish a National Energy policy, I've been very frustrated by the lack of progress across the Capitol. How can the administration help regain some of the momentum we lost after the House last acted on this bill?

Response: The Administration has completed or is implementing nearly 75 percent of the 106 recommendations contained in the comprehensive National Energy Policy announced by the President in May of 2001. The President continues to call upon Congress to pass the legislative aspects of his energy plan. The President has been very clear, in numerous speeches, that he wants energy legislation enacted. The President has clearly stated what he supports and how, had Congress acted years ago, the Nation would be better off today. He put forth a fiscally responsible package of energy legislative initiatives in June of 2001. Congress worked hard last year to put together an energy bill, and that effort would have succeeded last fall but for the filibuster of a minority of Senators.

One of the areas of the National Energy Policy that the Commerce Department has been most active in implementing is its goal of working with other countries to increase global energy supply and security. The following are examples of efforts we have made towards this goal:

- DOC helped create the North American Energy Working Group (NAEWG) with Canada and Mexico, which has held technical discussions on energy markets, electricity, energy efficiency, science and technology, and infrastructure security.
- DOC helped initiate a cooperative effort to help improve the regulatory and investment conditions required to increase energy and infrastructure development in Russia. Participants at two U.S.-Russia Commercial Energy Summits presented joint recommendations on increased energy cooperation to both governments in September 2003.
- DOC participated in the third U.S.-Africa Energy Ministers Conference in Casablanca, Morocco, which brought together 40 Energy Ministers or their representatives to discuss critical energy issues among their governments and with the private sector.
- DOC, along with the European Union, helped create the International Partnership for the Hydrogen Economy (IPHE), a forum for promoting the development of hydrogen as a fuel source.
- DOC helped create the U.S.-U.K. Energy Dialogue, to promote the security and diversity of future international energy supplies; integrate international energy

investment with the development and social challenges of host countries; develop clean energy technologies to address security of supply and environmental challenges; and expand the U.S.-U.K. trade relationship in the energy sector. Part of this Dialogue is the Commercial Working Group, which gives U.S. and U.K. energy companies a voice in discussions between the two governments on bilateral energy cooperation, security, and supply issues.

Question 3. Tort Reform is a concept that is discussed a lot in the halls of Congress. What do you believe is the most pressing need under the umbrella of Tort Reform?

Response: Legal reform is a high priority for this Administration, considering that the U.S. tort liability system is the most expensive in the world. Americans spend more per person on the costs of litigation than any other nation. The staggering costs of out-of-control lawsuits continue to hurt American businesses and workers. For this reason, the Administration has pressed for legislation to reform our treatment of class action lawsuits and to rationalize asbestos litigation. In particular, reining in unlimited and unpredictable medical liability awards is a pressing need. These lawsuits raise the costs of health care for all Americans through higher premiums for health insurance and divert precious financial resources from small businesses across America. That is why it is important for Congress to pass medical liability reform.

QUESTIONS FROM HON. CHARLIE NORWOOD

Question 1. Mr. Secretary, how many jobs does the United States currently outsource and how many do we insource? If you could provide numbers from the most recent calendar year that would be much appreciated.

Response: As for statistical measurements, the Bureau of Labor Statistics, through the Mass Layoffs Statistics program, provides a limited measurement of jobs lost to overseas relocations. I would defer to the Department of Labor on the use and limitations of this data.

The Bureau of Economic Analysis (BEA) collects annual data on the operations of U.S. affiliates of foreign-owned companies (i.e., establishments in which foreign-owned companies held at least a 10% stake.). In 2001, the latest year for which (preliminary) statistics have been published, employment at such operations was 6,371,900 or 5.6 percent of U.S. private-industry employment. Employment growth at U.S. affiliates of foreign-owned companies has averaged 5.0 percent per year since 1977, when employment was 1,218,700 or 1.7 percent of U.S. private-industry employment (Zelie, William J., "U.S. Affiliates of Foreign Companies," Survey of Current Business Vol. 83, No. 8, August 2003, p. 45). Policies that seek to limit the relatively small amount of offshoring of jobs by U.S. firms could lead to retaliation by other nations, putting many of these 6 million jobs at risk. More recent data are available on the subset of U.S. affiliates in which foreign investors owned a majority stake. In 2002, the latest year for which statistics have been published, employment at such operations was 5,449,000 or 5.0 percent of U.S. private-industry employment, up from 3,119,000 or 3.5 percent of U.S. private-industry employment in 1988.

It should be noted that these data are preliminary. In August, BEA will release data for the banking industry and for U.S. affiliates that are not majority owned. These corporations may commonly be considered foreign but the affiliate here in the states might be domestically owned. When this data is available this summer, we expect the number of jobs to be well over 6 million and very close to the 6.4 million number that is our most recent and most complete data on this topic. ("Summary Estimates for Multinational Companies: Employment, Sales, and Capital Expenditures for 2002," BEA Press Release, April 16, 2004).

Question 2. Could you please provide me with a graphic of our nation's unemployment rates over the past 25 years.

Question 3. During your response to my question about your Department's plans to take action against China for manipulating their currency, you mentioned that this is mostly the concern of the Department of Treasury. I disagree.

As you know, our trade deficit with China has increased from $30 billion in 1994 to an estimated $125 billion in 2003. The undervalued yuan has contributed to this trade deficit and continues to hurt U.S. manufacturing sectors, especially textiles, because they are forced to complete [sic] domestically and internationally against artificially low cost goods from China. China's manipulation of the Yuan is therefore in my mind—and the minds of manufacturers across the country—a trade issue and an unfair trade issue at that. Let me ask again, can we expect the Department of Commerce to take action on China's currency manipulation in the next year?

Response: The Treasury Department remains the lead agency for issues related to the Chinese exchange rate. However, the Department of Commerce addressed this issue indirectly through this year's special session of the U.S.-China Joint Commission on Commerce and Trade (JCCT).

The United States and China agreed to establish a Structural Working Group to assess China's economic reforms, as well as to identify steps China can take to improve its ability to achieve market economy status under U.S. trade laws. Currency convertibility is one of the criteria contained in U.S. law for determining market economy status. We will work closely with the Treasury Department as we engage with China on the issue of market economy status.

QUESTIONS FROM HON. C.L. "BUTCH" OTTER

Question 1. I commend you for your focus on manufacturing issues. Part of that effort should be about how the U.S. will produce basic raw materials used across industry sectors. Mining companies are not investing as much in the U.S. and are focusing their activities overseas because the U.S. ranks among the worst countries in terms of time and expense required to secure mine permits. This is impacting our ability to get refined raw materials and semi-fabricated materials such as copper and steel products and castings. How will the Commerce Department address raw materials issues and work with other departments to develop a national minerals policy?

Response: We recognize the importance of the basic raw materials sector, particularly mining and metals, to our manufacturing base and our overall economy. During our review of the issues affecting manufacturing we held two industry roundtables to address issues specific to this sector. In addition, we have held numerous meetings and consultations with the steel, copper and foundry industries. We maintain a close and cooperative relationship with these industries and their

associations. ITA will continue to closely monitor this sector, provide data and information and directly assist in resolving issues as they arise. We are committed to representing this sector's interest in international fora and directly assist USTR, State and other agencies in trade negotiations affecting the industry. We head the U.S. delegation to numerous international organizations dealing with this sector; for example, we will represent the United States at the APEC Mines Ministers meeting in June.

We are committed to addressing the issues identified in our comprehensive review of the manufacturing sector as they relate to metals and mining.

I would also refer you to the U.S. Department of the Interior for a perspective on the Administration's efforts to promote effective mining policies.

Question 2. Ten years ago, North American mining companies spent more than 50% of their exploration investments in the U.S. Today that amount is less than 10%. Lack of adequate investment in U.S. projects will continue absent greater regulatory certainty and a more timely permitting process. The mining jobs being taken overseas are among the highest in the industrial sector for wages and benefits. Under the Commerce Department reorganization you are working on, how will mining issues be staffed and addressed?

Response: We recognize the problems faced by the mining industry in developing new mineral properties within North America. Although the regulatory and permitting requirements that have affected investment are not under the Department's control, we have and will continue to assist in overcoming barriers to investment where we can. We are currently considering a Memorandum of Understanding with the Canadian Ministry of Natural Resources which will enhance our ability to address these issues. Under our reorganization we will ensure that the resources devoted to the mining and raw materials is adequate. In addition, we intend to expand our coverage of environmental and sustainable development issues affecting this sector.

Question 3. Since 1976, Treasury, FEMA, and the Defense Department have eliminated specific coverage of commodities and metals issues. The State Department has moved its metals coverage into its energy program. The Interior Department's Bureau of Mines was eliminated during the last Administration and some suggest Commerce seems to be de-emphasizing its metal commodities coverage. While foreign governments continue to encourage mine exploration and development, U.S. policy for the past decade is discouraging hard rock mining investment, though this administration has made some helpful policy changes. Mr. Secretary, shouldn't the Commerce Department's manufacturing initiatives include a strong component in support of responsible development of domestic minerals resources?

Response: The Department recognizes the importance of the minerals and metals industry to manufacturing and it's contribution to the overall economy. Under the ITA reorganization we will eliminate the current Metals Division, replacing it with a Materials Team. We will continue to support the metals sector as in the past and intend to increase our coverage of several domestic issues affecting the industries' ability to increase domestic capacity. We also intend to increase our coverage of the metal fabrication and casting sectors.

QUESTIONS FROM HON. BART STUPAK

Question 1. Did you review the Economic Report of the President prior to its approval and release? If you did, did you object to the outsourcing provisions included on Page 25 of the report? If you didn't object to the inclusion of outsourcing in the report, why?

Response: I did not personally review the draft of the Economic Report of the President prior to its release and approval. However, the report was carefully reviewed by an interagency team and I support its analysis.

Question 2. In my state of Michigan, a refrigerator manufacturer, Electrolux, has just announced they are closing up shop and relocating to Mexico. This is a profitable company and in its statement, it cited labor costs as the reason why they are moving to save $81 million. This is certainly not an isolated case in Michigan. What is in the President's plan to address this?

Response: Nationally, the President's goal is to ensure that every American who wants a job can find one. His policies, including last year's tax relief package, are designed to increase job opportunities in the United States while making sure workers have the skills necessary to access those jobs.

There are numerous signs that this approach is working. In the past year, the economy has grown at a 5 percent annual rate, the fastest rate of growth in nearly 20 years. Productivity is up, consumer confidence remains high, and home ownership is at record levels. On the employment front, 1.4 million new jobs have been

created since last August, while manufacturing has seen positive job creation for four straight months.

The President also recognizes that there is more to do. His goal is to boost the competitiveness of American industry by improving the environment for business in America. This means reducing costs from unnecessary or excessive regulations, working to reduce the cost of health care, and reform of the tort system. It also means enhancing innovation and improving the skills and capabilities of the American labor force as well as eliminating foreign unfair practices. The President's policies on these issues are outlined in our report, *Manufacturing in America.*

With respect to the Electrolux facility, I understand the impact this closure will have on western Michigan and am hopeful that a solution to this situation will be reached.

In October 2003, prior to Electrolux's announcement of a possible closure, the Department of Commerce's Economic Development Administration (EDA) began meeting with Greenville leaders and economic development officials to discuss potential strategies. EDA shared the city's goal of retaining the Electrolux facility. This dialogue continues and has included specific discussions on a possible EDA grant application to assist the community.

Following the Electrolux announcement that it was considering the closure of its Greenville plant, EDA's representative for Michigan attended a November 2003 public forum held to discuss the impact of the announcement. EDA's representative subsequently served on a task force comprised of local, state, and federal officials focused on developing a plan that would retain Electrolux in Greenville.

The city recently presented a proposal to Electrolux providing a package of assistance and incentives for the construction of a new facility in Greenville. This package includes possible EDA grant assistance of $2.5-$3.0 million to assist with infrastructure necessary for a new industrial park to accommodate a possible new Electrolux plant and key suppliers. Unfortunately, Electrolux rejected this generous package on Friday, January 16, 2004.

Despite this decision by Electrolux, the Department of Commerce has been actively engaged with Greenville officials, and the Department of Commerce's commitment to Michigan, in general, and Greenville, specifically, remains strong. EDA staff attended another task force meeting to discuss the future of Greenville on Monday, January 19.

EDA's representative for Michigan has been working with city officials on development of a preapplication for EDA assistance. EDA expects to process the city's official proposal by the end of July. EDA has invested over $110 million in Michigan since FY93 creating or saving over 66,000 jobs.

Moreover, EDA has coordinated its efforts with the Department of Labor to ensure that Electrolux's dedicated workforce will have the resources and services needed as they face this impending closure.

Question 3(a). The United States has a record trade deficit of $535 billion. Do you think this is a threat to the U.S. economy? What is the Administration's plan to reduce it?

Response: The trade deficit is not a threat to the U.S. economy, but it is an issue that requires attention. The main reason for the U.S. trade deficit is that the U.S. economy is growing more rapidly than the economies of many of our major trading partners, resulting in the growth of imports over exports. However, over the past year, U.S. exports have grown 14.6%—the fastest 12-month growth since 1997. Our exports in March were $94.7 billion—a record level.

While trade balances are certainly important economic indicators, a trade surplus is not always a sign of economic strength. The last trade surplus we incurred was during the 1990 recession. We also saw significant trade surpluses during the Great Depression. So while the trade deficit certainly requires attention, it should not define our economic policies. Our main goals must be overall economic growth, creation of jobs, productivity and higher wages for Americans.

For that reason, our approach to the trade deficit is to continue to focus on making U.S. workers and businesses the most competitive in the world while opening foreign markets to U.S. goods and services.

Question 3(b). Do you realize for each free trade agreement the U.S. has entered into, we have worsened our trade deficit? If yes, how is negotiating more Free Trade Agreements (FTAs) going to reduce the trade deficit and create new American jobs, particularly FTAs with no enforceable labor and environmental standards? How are you going to address that when negotiating future agreements such as Thailand? Shouldn't we all be playing by the same rules?

Response: The major reason for the U.S. trade deficit, as indicated above, is that the U.S. economy is growing more rapidly than many of our major trading partners.

The President's Free Trade Initiative will serve as a catalyst for further growth and American job creation.

The President's FTA initiative constitutes an aggressive campaign to open markets to American-made goods and services. In general, our FTA partners begin with higher barriers than the United States and undertake greater liberalization of their markets than the United States. Free Trade Agreements also require many of our trading partners to increase their standards for protecting U.S. intellectual property rights.

In the Trade Act of 2002, Congress provided guidance on negotiating objectives and priorities, including labor and environment issues, for trade agreements. The Administration has met those labor and environmental objectives in each FTA that it has concluded and will ensure that it meets those objectives in future FTAs submitted for approval under Trade Promotion Authority, including any agreement with Thailand.

Our FTAs help promote higher environmental and labor standards. Each agreement commits our trading partners to effectively enforce their domestic environmental laws, and this obligation is enforceable through the agreement's dispute settlement procedures. In addition, our trading partners commit to not weaken or reduce environmental laws to attract trade and investment.

The FTAs also require that our trading partners enforce their labor laws. A sustained or recurring failure of a country to enforce its own labor laws in a manner affecting trade with the United States is a breach of the agreement. The labor provisions of current FTAs clearly provide the United States with a stronger lever to promote observance of core labor standards by our FTA partners. The United States seeks to ensure that our FTA partners will effectively enforce their labor laws and to strengthen their capacity to promote respect for core labor standards, which include the right of association, the right to organize and bargain collectively, prohibiting forced labor, a minimum age for employment of children, and acceptable conditions of work.

Finally, I could not agree with you more that we should all be playing by the same rules and the Bush Administration has a strong record of trade enforcement. The Department of Commerce has focused on three key objectives to promote President Bush's commitment to free and fair trade:

1. To promote free and fair markets for U.S. companies around the world by actively enforcing our extensive trade agreements.
   - Since 2001, we have taken on over 680 market access and compliance cases on behalf of U.S. business. We have increased our market access and compliance staff by 25% and created a new Investigations and Compliance Unit.
   - In FY 2003, we saved U.S. companies an estimated $5.6 billion in possible lost sales and investments due to trade barriers. In FY 2000 this figure was estimated at less than $160 million.
2. To promote the protection of intellectual property rights (IPR) around the world.
   - We created an Office of Enforcement within the United States Patent and Trademark Office (USPTO) to specifically address IPR enforcement policy.
   - Since 2001, USPTO has conducted over 290 IPR technical-assistance projects around the world.
   - We are expanding cooperative efforts with developing countries and our trading partners. In addition, we are placing an IPR attaché in China to deal specifically with intellectual property rights abuses in that country.
3. To ensure other countries play by the rules when they import their products to the United States.
   - We have initiated over 195 new dumping and subsidy cases since January 2001, already more than were initiated in either term of the previous Administration.
   - We have initiated the largest cases against China ever—on illegally imported TVs, furniture and shrimp—these imports were valued at over $1.5 billion.
   - We are the first country in the world to take China to the WTO in a case involving illegally subsidized semiconductors.
   - We have already put in place nearly as many antidumping orders against China (17) as the Clinton Administration did in 8 years (21).
   - We have created two new units specifically devoted to enforcement of our trade laws and preventing unfair trade practices—an Office of China Compliance and the Unfair Trade Practices Task Force.

Question 4. The Administration says that it supports programs within your department to spur economic growth in our country, meanwhile it wants to significantly cut programs like the Manufacturing Extension Partnership (MEP) which has directly benefited companies in my district. In fact, in the last year 600 jobs have been created or retained in Michigan as a result. So, please help me under-

stand why the Administration wants to continue to cut its funding when it clearly helps small U.S. manufacturers to remain competitive while creating American jobs.

Response: This Administration is well aware of the pressure on U.S. manufacturing competitiveness. That is why the President has responded with a comprehensive set of policies to reduce the costs that impede American manufacturers' ability to compete and create jobs. These proposals include broad-based tax relief that reduced the cost of capital to America's manufacturers and helped increase manufacturing activity to near 20-year highs.

As the Department of Commerce's report, Manufacturing in America, makes clear, other principal concerns for America's manufacturers are excessive regulations, rising health care costs, unreliable and expensive energy costs, frivolous lawsuits, and lack of access to foreign markets. The President has put forward aggressive proposals to address each of these concerns.

With regard to the MEP, the Administration has increased its requested level for the federal contribution to the MEP in FY2005 to a level equivalent to the FY2004 Congressional appropriation of $39.6M. As you know, funding for the MEP centers is a cost-sharing arrangement consisting of support from the federal government, state and local governments, and the recovery of fees for services. Given advances in manufacturing and technology, it is appropriate to evaluate MEP operations and take steps for continuous improvement.

The Department of Commerce's report, Manufacturing in America, recommends greater alignment and coordination of other federal programs and resources that are similarly directed at the small manufacturing marketplace MEP serves, and which contribute directly to the health of those businesses. If successful, a closer coordination of these resources could not only effect greater leveraging of federal assets but could also bring to bear a more comprehensive level of service than MEP has delivered in the past.

The Administration's FY2005 Budget request reflects that recommendation, by proposing to coordinate MEP fully with other Commerce Department programs that are helping manufacturers to be more competitive and expand markets. Through this coordination, the Commerce Department can more closely link the technical and business staff employed by the MEP centers located around the country with trade promotion specialists in the Commerce Department's International Trade Administration (ITA). In addition, ITA has experts with in-depth knowledge of various sectors of industry. By coordinating MEP field agents and these sector experts, the program can be a more effective national resource to help small manufacturers.

Question 5. The Trade Act of 2002 created a health insurance tax credit for certain trade-displaced workers. Those who qualify (Trade Adjustment Assistance and PBGC recipients) are eligible for a 65% tax credit toward their health premiums for certain types of coverage. In Michigan, there's just one state-qualified provider—Blue Cross Blue Shield of Michigan.

How many TAA eligibles have actually signed up for the credit and how much do they have to pay for their coverage, even after the tax credit (i.e., what does their 35% amount to on average)? How much of the average TAA benefit does that premium eat up? How much are we paying to administer this credit? And how many people are we covering?

So, that's about $6,500 per person, just in administrative costs? Once you add in the amount of the tax credit itself, wouldn't it be a lot cheaper just to buy coverage for these people?

Response: These are important questions, but the Commerce Department does not administer the Health Coverage Tax Credit (HCTC) established under the Trade Act of 2002. The Treasury Department is primarily responsible for administering the HCTC. The IRS has established a special office to administer the HCTC program, and it may be more appropriate to address your questions concerning the operation of the HCTC program to that agency.

QUESTIONS FROM HON. HILDA SOLIS

Question 1. Does President Bush support trade adjustment assistance (TAA) benefits for dislocated service workers? If so, does the Bush Administration support H.R. 3881, legislation to expand TAA to dislocated service and computer industry workers?

Response: The TAA for Workers Program is administered by the Department of Labor. I know that my very capable colleague, Secretary Chao, is looking closely at this issue and I defer to her expertise in determining whether an expansion of this program is appropriate. In my opinion, the most important thing that Congress can do for workers, right now, is to pass the Workforce Investment Act to modernize the way that we train and prepare our workforce for the 21st century economy.

Question 2. Despite the overthrow of the Taliban, Afghan women continue to endure dangers and discrimination. How is the Department of Commerce going to ensure that the U.S. takes into account ways in which trade and investment may help or impede the progress of Afghani women?

AND

Question 3. Will the Department of Commerce be consulting with gender and Afghanistan experts prior to this meeting? Will they be meeting with Afghani women's groups?

Response: Afghanistan's new constitution, signed in January 2004, ensures women play a leadership role in government and contribute significantly to the country's development. In light of the increased emphasis on women's rights in Afghanistan, I made special note of the role of women during my October 2003 visit to Afghanistan. During consultations with my counterparts, I also met with the Commerce Ministry's Director for Women's Entrepreneurial Development, Mina Sherzoy. Ms. Sherzoy is an Afghan-American woman who returned to Afghanistan in late 2002 to contribute to her homeland's development efforts. I noted the progress in women's rights and encouraged more women to take advantage of the new era of gender equality by playing an active role in advising the government as it establishes commercial laws. I also participated in a business roundtable with local companies that included several women who discussed their reestablished abilities to participate in Afghanistan's developing economy.

Assistant Secretary for Market Access and Compliance William Lash will continue these outreach efforts during his June 2004 visit to Afghanistan. He plans to meet with Commerce Ministry officials, including Ms. Sherzoy, to gauge progress in women's entrepreneurial development. He will meet with the growing class of women entrepreneurs to further encourage that they remain active in pressing the government for commercial policies that take into account women's abilities to serve as managers and leaders, not just manual laborers.

The Department of State is also active in promoting women's issues. Under Secretary Paula Dobriansky, with Afghan co-chairs Foreign Minister Abdullah and Minister for Women's Affairs Sorabi, conduct the U.S.-Afghan Women's Council, a public-private partnership to help Afghan women. The group includes Presidential Advisor Karen Hughes; Connie Duckworth, Chair of the Committee of 200 (an organization of pre-eminent women business leaders); Assistant Secretary of State for Educational and Cultural Affairs Patricia de Stacy Harrison; Pat Mitchell, PBS President and CEO; and Barbara Barrett, Chairman of the Board of Thunderbird University. The Council meets twice annually in alternating capitals and held its fourth meeting in February 2004 in Kabul. The Council focuses on issues of access to education and health care, economic sectors and political participation and matching private sector donations with stated needs. The Council has sponsored numerous projects, including training for aspiring women journalists, entrepreneurs and politicians. The Foundation for International Community Assistance (FINCA—a micro-lending nongovernmental organization) also has given many women the critical start-up loan they need to launch their small businesses.

Question 4. The Department of Commerce announced a restructuring of the Industry Advisory Sectoral Committees, which advise the United States Trade Representative and the Department of Commerce about the development of trade policies on sectoral industries. The new committees are supposed to be finalized at the end of March 2004.

Under the new structure for the committees, how will representatives be selected? How many women are serving on the small and minority business task force?

Response: There will be no change in the process by which members of the committees are selected. Commerce and USTR jointly review all applications to the committees. Members are selected to represent their industry interests on trade matters. Considerations for membership include knowledge and expertise of the industry represented and of trade matters, and diversity among sectors, product lines, firm size, geographic areas, and demographics. Committee members must be U.S. citizens and represent a U.S. firm or other entity that is directly engaged in the export or import of goods or that sells its services abroad, or represent a U.S. entity that provides services in direct support of the international trading activities of other U.S. entities. To begin the nomination process, the Office of Advisory Committees requires the following: 1) sponsor letter, which must be on company/organization letterhead (can be self-nominating); 2) resume, with demonstrated knowledge of international trade as relevant to the work of the committee; and 3) company or organization information (if consultant, legal advisor, or trade association, a membership list or client list must be included). Commerce and USTR make every effort

to maintain balanced industry representation on each Committee and among Committees. Appointments are made without regard to political affiliation.

Currently, the Industry Trade Advisory Committee on Small and Minority Business (ITAC 11) has a total of 27 members; eight are women.

Question 5. Will civil society organizations be represented on the task forces? If so, which groups on which task forces?

Response: Four environmental representatives currently serve on the new Industry Trade Advisory Committees. Two, representing the Defenders of Wildlife and The Mercatus Center at George Mason University, serve on the new Industry Trade Advisory Committee on Chemicals, Pharmaceuticals, Health/Science Products and Services (ITAC 3); and two, representing Defenders of Wildlife and the Pacific Environment Resources Center at the Center for International and Environmental Law, serve on the new Industry Trade Advisory Committee on Forest Products (ITAC 7).

Question 6. Will there be women or labor groups on the textile task force given that women are the majority of textile workers in the U.S. and are the majority of textile workers in developing countries?

Response: As of May 2004, the Industry Trade Advisory Committee on Textiles and Clothing (ITAC 13) has 44 members, of which eight are women. Two of the three Committee's officers (the two Vice Chairs) are women. The women members represent the full spectrum of the fiber, textile, apparel, footwear, leather and luggage industries. Labor groups are not represented on the ITACs as they serve on the USTR-Labor Advisory Committee (LAC), which is included in the trade advisory committee system. Textile and apparel labor organizations are members of LAC.

Question 7. How is the Department of Commerce going to ensure that U.S. procurement policies can continue to support women and minority-owned small businesses and still be non-discriminatory?

Response: Opportunities for women- and minority-owned small businesses in government procurement are guaranteed through a variety of federally mandated set-asides which insure government agencies procure from these businesses whenever possible. The Department supports and fully complies with all federal procurement polices and legal requirements regarding small, minority- and women-owned businesses. Our trade agreements do not affect these opportunities, as the United States negotiates government procurement chapters that open foreign markets to U.S. suppliers but still protect opportunities for women- and minority-owned businesses in U.S. domestic procurement.

QUESTIONS FROM HON. ELIOT ENGEL

Question 1. The U.S. steel industry has suffered grievous harm. The federal government had instituted a 3-year-program to protect it from unfair foreign competition, yet the Administration pulled the plug early. In the case of Brazil this unfair competition is very apparent. As you may know, in the U.S. we use coal to make steel. In Brazil they use charcoal which is made by the Brazilian lumber industry that has been documented in using slave labor. When a vital component of Brazilian steel production is made using slave labor, a gross competitive disadvantage for the U.S. steel industry is created.

Question 1(a). Why did the Administration end the program early?

Response: In March 2002, following an investigation by the International Trade Commission (ITC) that found that the U.S. steel industry had been injured by a surge in steel imports, the President imposed temporary safeguard measures on a number of steel products. The safeguard measures were designed to provide the industry with the temporary breathing space needed to adjust to the increased imports and regain its competitiveness.

On December 4, 2003, the President terminated the steel safeguards as a result of changed economic circumstances, after determining that the measures had achieved their purpose. In the 21 months that the safeguards were in place, the industry underwent major restructuring and consolidation, productivity increased sharply, prices stabilized and profitability returned. Since the safeguard measures were lifted in December, prices have remained strong and the industry has continued to maintain its profitability.

Question 1(b). What is the Administration doing to address the obvious problem of slavery in Brazil?

Response: The Administration takes such allegations very seriously. The U.S. Department of Homeland Security's Customs and Border Protection agency is responsible for investigating allegations of the use of prison or indentured labor in the manufacture of merchandise imported into the United States. Currently, U.S. Customs and Border Protection has staff operating out of the U.S. Embassy in Brasilia to specifically address the issue of alleged slavery use in manufacturing.

The Government of Brazil has developed its own national programs to combat slavery, and the Bush Administration supports and encourages these efforts. In addition, the Department of Labor provided $1.7 million in funding for a project led by the International Labor Organization for combating forced labor in Brazil, which is scheduled to run through the end of 2007. The project contributes to the prevention and elimination of forced labor in Brazil by strengthening the capacity of governmental and non-governmental institutions to detect and combat forced labor, and provides rehabilitation and economic alternatives for victims of forced labor. Both the Department of Labor and Department of State assist in the administration of the project grant in Brazil.

Question 1(c). What plans does the Administration have to protect the steel industry from unfair competition from Brazil?

Response: As part of the safeguard measures, the Administration established a steel import licensing and monitoring system to allow the Administration to better detect and, where appropriate, more quickly respond to future import surges. This system was kept in place even though the tariffs were lifted. In addition, the Administration continues to vigorously enforce the antidumping and countervailing duty laws which provide our domestic steel industry with the opportunity to obtain relief from unfairly traded imports from any country, including Brazil.

Moreover, as part of the Administration's effort to address challenges facing our manufacturing sector, the Department of Commerce recently established an Unfair Trade Practices Task Force to pursue the elimination of foreign unfair trade practices that may harm U.S. commercial interests. The members of the Task Force include trade experts and economists with a broad range of experience in addressing unfair trade issues involving dumping, subsidies, import surges and customs practices and are well-versed in such sectors as steel, textiles, agriculture and semiconductors.

In addition to meeting with concerned members of industry and conducting its own internal analysis, the Task Force has issued a notice in the Federal Register asking the public and representatives of the manufacturing sector to identify those unfair trade practices of greatest concern, in order to assist the Task Force in determining its initial priorities. The notice seeks comments on all types of foreign unfair trade practices facing our manufacturers, including those practices which currently may not be subject to specific or adequate trade disciplines. We will also ask for comments on the underlying market distortions that may have led to the practice in question and any suggestions regarding the most effective ways the Task Force can assist in addressing an identified unfair trade practice.

We look forward to fully employing these resources to get at the underlying causes of unfair trade problems well ahead of the time that industries must typically seek relief from the government under our trade laws.

Question 2. As you may know, the Terrorism Risk Insurance Act is due to expire at the end of this year. The Secretary of the Treasury can extend this for another year, but must do so by September.

What would the impact be on the U. S. economy if shopping center owners and office building owners could not get terrorism insurance?

Will you pledge to speak to Secretary Snow and urge him to extend TRIA quickly?

Response: The Terrorism Risk Insurance Act (TRIA) requires the Secretary of the Treasury to determine by September 1, 2004, whether to extend the "make available" provisions of the Act into the third year of the program. These provisions require each insurer to make available, in all of its commercial property and casualty insurance policies, coverage for insured losses under the Act. TRIA also requires that this coverage must not differ materially from the terms, amounts and other coverage limitations applicable to losses from events other than acts of terrorism. The Secretary's determination must be based on the "effectiveness of the program," the "likely capacity of the property and casualty insurance industry to offer insurance for terrorism risk after the termination of the program," and the "availability and affordability of such insurance for various policyholders."

To assist the Secretary in making this determination, the Department of the Treasury on May 5, 2004, published a Request for Comments (RFC) in the Federal Register. Comments were due by June 4. Among other things, the RFC asks whether policyholders would still be able to obtain terrorism risk insurance and whether the affordability would be impacted if the provision were not extended; how the "make available" requirement has affected or interacted with the available capacity of insurers to provide terrorism risk insurance coverage to date; and how a Treasury decision to extend or not to extend would affect insurers' decisions to offer insurance in Program Year 3. Responses to this RFC, along with other surveys Treasury has commissioned, should provide the Secretary with the information necessary to make an informed decision, consistent with the terms of the Act. The information gath-

ered should permit an assessment of the availability and affordability of terrorism insurance coverage as well as the demand for such coverage.

I am confident that Secretary Snow and his Department are making every effort to obtain the information needed to make a decision on the extension as quickly as possible.

QUESTIONS FROM HON. BART GORDON

Question 1. Mr. Secretary, manufacturing jobs have declined for 40 straight months. Since January 2001, the United States has shed 2.75 million manufacturing jobs; 27,000 manufacturing jobs were lost in January of this year alone. In Tennessee we have lost more than 60,000 manufacturing jobs since 2001. Our small- and medium-sized manufacturers have been particularly hard-hit. Whenever I meet with small manufacturers, they tell me about the importance of the Manufacturing Extension Program [sic] in helping them meet increased international competition and to keep their doors open. The MEP generates thousands of jobs and billions of dollars in increased sales and investment. Also, each federal MEP dollar invested generates $4 in federal tax revenue. And just this month, the President awarded the Malcolm Baldrige National Quality award to Stoner Inc., a small manufacturer in Quarryville, Pennsylvania—another satisfied customer of its local MEP Center. The Administration's Manufacturing Plan is very short on specific actions, including a lack of funding estimates, to assist U.S. manufacturers. The MEP is a proven program with a documented successful track record. Mr. Secretary can you explain to me, and the American small manufacturing community, why the Administration has targeted the successful MEP for elimination?

Response: The MEP is not being targeted for elimination. The Administration has increased its requested level for the federal contribution to the MEP in FY2005 to a level equivalent to the FY2004 Congressional appropriation of $39.6M. As you know, funding for the MEP centers is a cost-sharing arrangement consisting of support from the federal government, state and local governments, and the recovery of fees for services. Given advances in manufacturing and technology, it is appropriate to evaluate MEP operations and take steps for continuous improvement.

The Department of Commerce's report, *Manufacturing in America,* recommends greater alignment and coordination of other federal programs and resources that are similarly directed at the small manufacturing marketplace MEP serves and which contribute directly to the health of those businesses. If successful, a closer coordination of these resources could not only effect greater leveraging of federal assets but could also bring to bear a more comprehensive level of service than MEP has delivered in the past.

The Administration's FY2005 Budget request reflects that recommendation, by proposing to coordinate MEP fully with other Commerce Department programs that are helping manufacturers to be more competitive and expand markets. Through this coordination, the Commerce Department can more closely link the technical and business staff employed by the MEP centers located around the country with trade promotion specialists in the Commerce Department's International Trade Administration (ITA). In addition, ITA has experts with in-depth knowledge of various sectors of industry. By coordinating MEP field agents and these sector experts, the program can be a more effective national resource to help small manufacturers.

Question 2. Mr. Secretary, the Modernization Forum (the umbrella organization for the MEP Centers) sent you a letter outlining the impact of the FY04 funding level of $40 million on the national network of MEP Centers. The Modernization Forum refutes the Department's claims that despite a two-thirds cut in funding, MEP performance can be sustained by introducing cost-savings efficiencies such as integration with the International Trade Administration and collaboration with universities and community colleges.

After your announcement that EDA funds may be available for MEP, the Modernization Forum again wrote you (1 March 2004) asking to work with you to ensure MEP Centers have access to these funds as soon as possible. In addition, they requested that you arrange a workshop for MEP Center Directors on 16 or 18 March while they were in D.C. It is my understanding that you have not responded to either of these letters. Why not? Could you give us an idea of what the Administration intends to do before 1 June to ensure the MEP network is not destroyed?

(I met with EDA officials last week. At best there is $8 million available for MEP Centers. However, there seems to be some legal issues about how Center might be able to apply for EDA grants. Commerce lawyers have not yet begun addressing this issue and Commerce officials would not say that it would be resolved before 1 June.)

Response: During the past year, the Department took a comprehensive look at the issues influencing the long-term competitiveness of U.S. manufacturing to identify

the challenges our manufacturers face and outline a strategy for ensuring that the government is doing all it can to create the conditions that will allow U.S. manufacturers to increase their competitiveness and spur economic growth. That review ultimately led to the Department of Commerce's report, *Manufacturing in America.* The report recommended methods to strengthen the MEP program.

In addition to the support for the MEP national manufacturing network provided by the FY04 appropriation, EDA has made MEP centers eligible for Economic Adjustment Program funding. EDA has been working with MEP on logistics and arrangements for center applications to provide this additional pool of funds as soon as possible.

MEP intends to hold an interactive dialogue with all stakeholders on the impact, scope, and effect of the proposed recompetition. The following is the tentative timeline for the recompetition. This timeline includes a number of opportunities for discussions and dialogue with all MEP stakeholders, including the ModForum.

- We will hold a recompetition for MEP centers in the fall of 2004. This timing will allow the Department to solicit and receive input from state co-investors in the MEP centers. Because MEP is a cost-shared program relying upon the contributions from its State partners (1/3 of the total center funding), it is critical to get their input in defining the format and structure of the recompetition. This is essential to assure state support for the recompetition and to encourage states to support proposals for well-qualified, well-financed centers.
- MEP will conduct a series of regional discussions to get state and other investor inputs in the July/August 2004 time frame. The National Institute of Standards and Technology (NIST) will release a Federal Register notice requesting proposals on or about September 1, 2004, with proposals due October 31, 2004 (60 days later). Awards are expected to be effective January 1, 2005.
- The center competition will use the criteria and protocols as established in the MEP rule (15 CFR 290).
- MEP will implement, as appropriate, proposed program reforms in the upcoming National Academy of Public Administration (NAPA) analysis of the MEP program.
- Per their request, centers and state economic development offices will be given opportunities to provide input on the recompetition.

Question 3. The Administration proposes to eliminate the Advanced Technology Program (ATP). In our current economic situation and with increased competition from abroad should we be closing one of the few programs that enable entrepreneurs to bring research ideas to the demonstration phase? When the Science Committee held a hearing on nanotechnology one of the recommendations we heard was to continue funding for ATP. They pointed out there is plenty of funding for basic research but there is no funding to bridge the gap between the lab and the marketplace. This is exactly the problem that ATP is designed to solve. I understand the need to prioritize during tough budget times. However, the Administration's own analysis of ATP shows that benefits for just a few ATP projects analyzed to date are projected to exceed $17 billion on a total of $2.1 billion federal investment since ATP started. It seems that when we are losing so many manufacturing and high-skill jobs, we should be focusing on the development of next-generation technologies which will support high-wage jobs. Why does this Administration wish to eliminate the ATP, rather than making it a part of its manufacturing plan?

Response: Developing new technologies that will create the next generation of high-wage jobs and enhance U.S. competitiveness depends upon Federal activities that enable world-class fundamental research, create incentives for increased private sector R&D, and strengthen intellectual property protections. The President's FY 2005 Budget provides for an unprecedented $132 billion investment in R&D, devoting 13.5 percent of all discretionary outlays to R&D—the highest share in 37 years. The Administration has also sought to strengthen existing technology transfer mechanisms and develop new ones—such as user centers that enable private sector access to large-scale, cutting-edge research tools and facilities. Examples of user centers include NIST's Center for Neutron Research and the various major facilities located at Department of Energy laboratories. In addition, the Administration seeks to stimulate private sector innovation by making the R&D tax credit permanent, and other means, rather than providing direct support to only a handful of the many qualified businesses.

Consistent with an emphasis on shifting resources to reflect changing needs and priorities, the Administration proposes to terminate ATP. The Administration believes that other NIST R&D programs are much more effective and necessary in supporting the fundamental scientific understanding and technological needs of U.S.-based businesses, American workers and the domestic economy. The decision will also allow NIST to focus on programs within its Measurement and Standards

Laboratories, which have received national and international recognition and are central to satisfying NIST's core mission. Further, large shares of ATP funding have gone to major corporations that do not need subsidies. Finally, ATP-funded projects often have been similar to those being carried out by firms not receiving such subsidies.

Question 4. Mr. Secretary, on 11 February, Under Secretary Phil Bond appeared before the Science Committee and had this to say about the National Institute of Standards and Technology.

> "NIST has been often referred to as the 'crown jewel' of our Federal laboratory system. It is a well-deserved title because there is no other Federal lab that industry relies on as much as NIST. Industry needs the critical NIST metrology research standards for measurement testing, analysis, and protocols that allow for interoperable products to be created, new products to be developed based on consensus standards, assurance that products meet conformity assessment requirements, and the ability to effectively bring their innovation from the laboratory to the marketplace."

I couldn't agree more with this assessment. NIST is very important component in U.S. industrial competitiveness. However, NIST plays only a very small role in the Administration's Manufacturing Plan. I am also concerned about the Administration's FY05 budget request for NIST. The Administration's budget request shows an $85 million increase for the NIST labs that includes $58 million for new research initiatives. However, the budget request does not include close-out costs for the Advanced Technology Program, which the Administration proposes eliminating. These close-out costs are $35 million according to Dr. Arden Bement (5 Feb. budget briefing)) not does it take into account that in past years up to 15 % of ATP funds were transferred to the NIST lab account—in FY03 this was $13 million. According to my accounting, there would only be about $11 million for new initiatives at the NIST labs. ($85 million minus $26 million for lab equipment minus $35 million ATP close-out minus $13 million ATP transfer funds leaving $11 million.) It seems that either there will be no new NIST research initiatives or you will have to take MEP funding to pay for new research at NIST. What is the Administration's intent?

Response: The FY2005 President's Budget proposal represents the Administration's intent to strengthen core NIST lab capabilities through increases for laboratory upgrades, equipment, and ongoing research efforts. As our nation's oldest federal laboratory, NIST provides critical measurement, standards, and technology that facilitate commerce and trade. The budget provides support for the President's research and development (R&D) priorities for combatting terrorism, nanotechnology, networking and information technology R&D, biosciences, and hydrogen fuel R&D, among others. Additionally, in order for the NIST world-class scientists to perform their national mission, the budget requests funds for urgently needed construction and renovation projects in both Gaithersburg, Maryland and Boulder, Colorado.

If Congress enacts the FY2005 Budget proposal to terminate funding for the Advanced Technology Program (ATP), the Department of Commerce and NIST will pursue all available means to address the termination cost requirements, consistent with legal obligations and sound management practices. To the greatest extent possible, NIST will seek opportunities to place ATP staff elsewhere in NIST or at other agencies, both within and outside the Department. NIST already received Voluntary Employee Retirement Authority and buy-out authority to reduce the number of its employees in light of the lower appropriation level for other programs in FY 2004. The use of funding that may become available through prior year deobligations in ATP is also a possibility to offset ATP shutdown costs. Prior year deobligations have averaged $13 million over the last three years, although a lower level is projected for FY 2005.

QUESTIONS FROM HON. EDWARD J. MARKEY

Question 1. Mr. Secretary, Massachusetts used to be a center for textile manufacturing, but in the last century we lost those jobs as factories moved first to the Southern states, and then offshore. We adapted by developing new skills and new industries in high technology and medicine. A very high percentage of our employment and therefore of the economic base is medical and high-technology oriented. These jobs are now being endangered by offshoring to India, Pakistan, or other countries, which is threatening the heart of Massachusetts economy. If we lose the high-tech, information industry jobs, the bio-technology jobs and the outsourceable medical jobs, what are we going to replace them with? How are we going to retrain the unemployed and into what will they be retrained?

Response: The President's economic priority is to increase job opportunities in the United States while ensuring that Americans have the skills necessary to fill those

jobs. As you point out, Massachusetts has demonstrated the ability of the U.S. economy to shift with changing circumstances. At the time Massachusetts started losing its textile jobs, nobody knew—or could predict—that the state would find its new specialization in areas such as computers and medical research. But the state's advantages—especially its tremendous university base and well-trained and qualified workforce—gave it an advantage in these high-skilled and high-paying areas.

I believe that the lesson of the Massachusetts experience shows that we need to concentrate on the skills and abilities of our labor force and our ability to succeed in an innovation economy. While I share your concern any time we lose one good, American job, I do not believe that we can protect our way to prosperity. Nor can we predict exactly where new industries and jobs will be created. This is the most difficult and challenging aspect of a competitive global economy, but I believe the course we must choose is clear. We must continue to prepare our workforce, build the technological infrastructure necessary for innovation to flourish and promote the competitive and entrepreneurial advantages of America. The President has made commitments to all of these objectives:

- Doubling the number of workers receiving job training through the major Federal worker training programs under the Workforce Investment Act, ensuring that those programs work better, and closing the skills gap so we fill every high growth job with an American worker.
- Strengthening and modernizing support for vocational education.
- A Presidential Math and Science Scholar's Fund to ensure that America remains the world leader in the innovation economy.
- Extending the National Assessment of Educational Progress to high schools to ensure that they are producing educated graduates.
- Record commitments of Federal R&D—$132 billion this year.
- Pro-growth tax policies that support entrepreneurship and the deployment of technology. This includes support for the Internet tax moratorium, achieving accelerated depreciation schedules for small businesses (including immediate expensing for purchased computer software), and support for the making the R&D tax credit permanent.

In addition, my colleague at the Department of Labor, Secretary Chao, is targeting those markets generating the most rapid job growth or where the greatest skill shortages exist, and focusing training and education programs that provide the talent-base to fill those jobs. Secretary Chao is implementing the President's High Growth Job Training Initiative. Its premise is simple and straightforward: Successful workforce development happens when training programs are connected to real employment opportunities. The High Growth Job Training Initiative encourages the workforce investment system to identify businesses and industries with career opportunities, evaluate their skill needs, and ensure that people are being trained with the skills these businesses require. As part of this initiative, Secretary Chao has focused on 12 industries at the national level that are either projecting significant job growth, experiencing transformation in the nature of the job skills required, or are essential to the national economy. Information technology, health care, biotechnology, and advanced manufacturing are four of those 12 industries.

Question 2. I am also very concerned that the offshoring of many technology jobs really adds insult to injury—for not only do American workers lose their jobs, but they also face a very real threat of also losing their privacy. Some of the jobs that are being sent offshore involve the processing or analysis of the private medical information, personal financial information from banks, brokerages, insurance or credit card companies, income tax return information, and other types of sensitive personal information. Can you tell the Subcommittee what the Department of Commerce has done to ensure that sensitive data about American citizens—their medical records, their tax returns, their financial information, is not sent overseas to a person or a company that could compromise this information?

Response: I understand your concerns and agree that protecting the privacy and security of personal information collected by U.S. companies is very important. I understand that Federal Trade Commission Chairman Timothy Muris recently sent you a letter outlining the FTC's authority to safeguard consumer privacy both at home and abroad. As Chairman Muris indicated, under current United States law, a company must take reasonable steps to ensure that information shared with its service providers—whether domestic or foreign—is protected in accordance with those laws. And, with respect to medical information, current United States law—in particular, the Health Insurance Portability and Accountability Act (HIPSAA)—provides Americans with strong privacy and security safeguards.

Continued education and outreach to U.S. companies on the importance of developing global privacy policies and practices is essential to promote compliance with U.S. laws. Recognizing the increasing importance of privacy to consumers and busi-

nesses alike, the Department of Commerce, in conjunction with the Federal Trade Commission and other inter-agency partners, has had productive dialogues with other governments, consumer groups, and businesses to encourage broader adoption of privacy protections.

Multilateral and private-sector initiatives are important in the development and use of privacy-enhancing technologies and in promoting business and consumer education and awareness about online privacy issues, including concerns about the offshore transfer of personal information. We have continued our commitment to work with other countries, businesses, and consumer groups in private sector-led forums such as the Global Business Dialogue on Electronic Commerce (GBDe), the Trans-Atlantic Business Dialogue (TABD), and the Trans-Atlantic Consumer Dialogue (TACD).

We are also working very closely with multilateral organizations such as the Organization for Economic Cooperation and Development (OECD) and the Asia-Pacific Economic Cooperation forum (APEC) to promote internationally compatible approaches to privacy. As you may know, APEC is in the process of developing the APEC Privacy Framework, which will build upon the 1980 OECD Privacy Guidelines to create a voluntary system of privacy protection that is appropriate for the particular conditions in the APEC economies. Additionally, the Framework will focus on a cooperative approach to information privacy in the Asia Pacific region that will balance and promote both effective privacy protection and the free flow of information. The Framework will include an accountability principle that makes clear that controllers, when transferring personal information, should take reasonable steps to ensure that the recipient will protect the information consistently with the APEC Principles.

Finally, I am pleased to note that the Department of Commerce has awarded a Market Development Cooperator Program grant to the Better Business Bureau (BBB) Online to promote the Global Trustmark Alliance (GTA). As you may know, BBB Online's mission is to foster the highest ethical marketplace relationship between consumers and business. Many in the private sector, government, and consumer organizations view it as the leading self-regulation organization in North America. The GTA is a new membership organization created to improve cross border e-commerce by fostering consumer trust and encouraging good online business practices. We believe that this program will prove instrumental in enabling businesses to recognize the importance of privacy protection and to implement protocols for ensuring that personal information is safeguarded even when transferred abroad.

Question 3. Mr. Secretary, the use of computer technology makes the global market work. This global computer market however also makes it easier to gain access to the data that is present on this world wide computer network. Are you at all concerned that the offshoring of private data about U.S. citizens and companies will facilitate identity theft, industrial espionage, data sabotage or data mining that will allow foreign individuals, companies, or for that fact terrorist groups access to sensitive data that could be used against individuals, or companies in the U.S. or even the American government?

Response: While the concerns you raise about the misuse of personal information by bad actors are legitimate, problems such as identity theft, industrial espionage, data sabotage or data mining are not unique to the outsourcing context. These issues affect information shared with all service providers, both domestic and international. The Department of Commerce will continue to engage in cooperative dialogues such as the GBDe and continue to work with the OECD and APEC to bolster on and off-line privacy and to safeguard business and consumer interests domestically and internationally. Moreover, as noted above, FTC Chairman Muris recently sent you a letter outlining the FTC's authority to safeguard consumer privacy at home and abroad and indicated that, under current United States law, companies must take reasonable steps to ensure that information shared with service providers, both domestic and foreign, is protected in accordance with those laws. The FTC, charged with enforcing our nation's consumer protection laws, is actively taking steps to ensure that American consumers and businesses understand their respective privacy rights and legal obligations.

Question 4. Mr. Secretary, do you believe that before the personal medical information of an American citizen, their personal financial information, or their personal tax return information, is sent offshore for processing or analysis, that the American citizen should be first provided with a NOTICE of where their information is being sent, and an "Opt-IN" right to say NO to the transfer and block it?

Response: We strongly believe that information controllers should provide individuals with clear and conspicuous, readily available, and affordable mechanisms to choose how their information is to be used. However, we also believe that the United

States and its partners should achieve internationally compatible standards for privacy protection while preventing the interruption of trans-border data flows, the key to electronic commerce and cross-border trade and services.

To date, most legislative and policy enactments related to privacy, including the Gramm-Leach-Bliley Act and the Health Insurance Portability and Accountability Act of 1996 (HIPAA), have required companies to provide individuals with notice of how their information is being used and disclosed and provide for meaningful opportunities to exercise control.

Question 5. Mr. Secretary, as you know, the European Union has a data protection law that addresses transfers of personal data about EU citizens to third countries, such as the U.S. In light of the growing trend towards offshoring data about U.S. citizens to other countries, should the U.S. also adopt a Data Protection Law to ensure that personal data about American citizens is only sent to countries that provide strong and enforceable privacy protections, and that U.S. citizens get disclosure and a right to say NO to data transfers that they fear might compromise their personal privacy?

Response: While we strongly believe that individuals should be offered choices concerning how their personal information is used, we do not believe that the United States should adopt privacy legislation along the lines of the European Union (EU) Directive on Data Protection. As you may know, while the United States and EU generally agree on the need for privacy protections, the United States and the EU employ very different means to achieve this goal. The EU Directive, which takes a one-size-fits-all regulatory approach to privacy issues, is extraordinarily broad in scope and may have the effect of stifling the continued growth of electronic commerce.

Additionally, the EU Directive includes provisions aimed at ensuring that data transfers are only permitted to countries whose privacy laws are deemed "adequate" by the European Commission. This requirement has resulted in a good deal of confusion for other countries and the private sector regarding exactly what constitutes "adequacy" under the European regime. To date, only Canada, Argentina, Hungary, Switzerland, and Guernsey, along with the U.S.-EU Safe Harbor arrangement (see http://export.gov/safeharbor), have received "adequacy" decisions from the EU, despite the fact that many additional countries have enacted comprehensive privacy legislation.

Furthermore, the EU Directive applies to all processing of personal data, including on-line, off line, and manually processed data, as well as automatic, by all organizations in all industry sectors. In contrast, the U.S. approach, which relies on sector-specific legislation, private-sector privacy initiatives and the important role of the Federal Trade Commission to enforce privacy promises, preserves maximum flexibility for businesses to be responsive to the privacy concerns of individuals. Finally, it is worth noting that certain recent studies, including findings published by the CATO Institute and the AEI-Brookings Joint Center for Regulatory Studies, indicate that comprehensive regulatory approaches to privacy may be no more effective in protecting personal information than other models, including private sector developed privacy programs.

MANUFACTURING

PENNSYLVANIA'S FUTURE

Regional Strategies that Build from Curre
Strengths and Address Competitive Challenge

Manufacturing: The Keystone of the Commonwealth

Manufacturing made the Commonwealth of Pennsylvania. During the age of Benjamin Franklin, the state was a hub of trade whose artisans hammered out goods that created colonial commerce and spurred aspirations for American self-reliance.

As the workshop of the new nation, Pennsylvania sent what was needed north and south and drove enterprise westward: over the Alleghenies, Pennsylvania rails, engines, and rolling stock sped commerce across the virgin land to link a continental nation. The factories of the Keystone State turned the tide against secession and slavery as surely as the sacrifice at Gettysburg. Pennsylvania steel, glass and oil built and fueled the reunited nation and laid the foundation for American world leadership in war and peace in the 20th century.

Millions of people in previous generations made new lives in Pennsylvania by making what the world needed. The leaders who marshaled their labor —Franklin, Carnegie, Mellon, Heinz, Westinghouse — stood for genius turned to social purpose, for wealth as the wellspring of commonwealth.

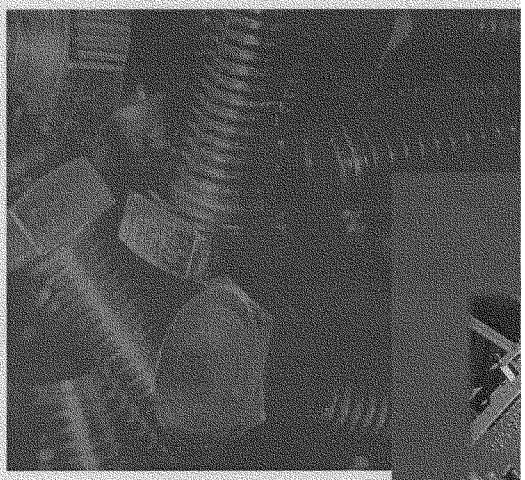
Pennsylvania carries this heritage forward. *Manufacturing Pennsylvania's Future: Regional Strategies that Build from Current Strengths and Address Competitive Challenges*, the study summarized here, shows that manufacturing is profoundly important to the economic future of the commonwealth.

Manufacturing remains by far the largest part of the state's output, and it accounts for the majority of what it exports. Manufacturing also provides the best source of hundreds of thousands of good family-wage jobs, which in turn makes it the leading source of wealth and the force that drives all of the commonwealth's regional economies.

Manufacturing is the essential anchor for hundreds of cities and towns across the state and the means through which it can bring to market most of the products conceived and developed by its entrepreneurs.

The study also defines the challenges faced by manufacturers in 21st century Pennsylvania. All manufacturers now work in a global economy in which able competitors can emerge, half a world away, without warning, in months. On a planet transformed by digital technology, commerce is transacted in a nano-second and jobs can be sent to another continent in weeks. The study assesses those challenges and recommends what manufacturers and the commonwealth must do to succeed in the future.

iRC Deloitte. PENNSYLVANIA DEPARTMENT OF COMMUNITY & ECONOMIC DEVELOPMENT Team Pennsylvania FOUNDATION



Submitted to:
The Industrial Resource Centers (IRCs) of Pennsylvania
Department of Community and Economic Development, Commonwealth of Pennsylvania
Team PA Foundation

January, 2004

The analysis summarized here delves deep into comprehensive, detailed data to define Pennsylvania's manufacturing economy, and it presents compelling graphics that support the findings. This analysis may well be the most substantial study ever done of the manufacturing endowment of an industrial state.

To read the complete, comprehensive report, visit www.catalystconnection.org/bkh/report.htm.

The 10 core findings of the study are presented here in the precise language and accompanying illustrations developed by the Deloitte team that conducted the study.

FINDINGS

1) **Manufacturing remains an essential element of Pennsylvania's economy, contributing $64 billion annually to the gross state product. This is by far the largest share of any sector.**

Pennsylvania's manufacturing output rose steadily in the 1990s; it declined some from the 2001 recession, and it currently stands at $64 billion or 16.1 percent of total state output. No other industry contributes even 10 percent.

2) **Manufacturing in Pennsylvania and in America faces new challenges. Pennsylvania has lost 133,000 manufacturing jobs since 1998. This is attributable to the recent recession, to gains in productivity and to foreign competition and offshore sourcing by transnational manufacturing corporations.**

Manufacturing employment in Pennsylvania held steady in the 860,000 range through the 1990s and then fell by more than 130,000 since 2000. Part of this rapid decline was a result of the 2001 recession, which was severe for manufacturing. And part, perhaps 30 percent (40,000 jobs) came as foreign competitors in low-cost countries claimed markets once served by Pennsylvania firms and major transnational corporations selected cheaper offshore suppliers, breaking long-standing relations with firms in Pennsylvania. Yet another part of the decline was a result of ongoing and desirable gains in manufacturing productivity. As manufacturers adopt new technologies and methods, they accomplish more with the same level of effort.

Part of the decline, of course, was the result of the 2001 recession, which was severe for manufacturing. And part, perhaps 30 percent (40,000 jobs) came as foreign competitors in low-cost countries claimed markets once served by Pennsylvania firms and major transnational corporations selected cheaper offshore suppliers, breaking long-standing relations with firms in Pennsylvania.

This challenge is illustrated by the two charts on the right, which show the comparative data on key manufacturing costs for the U.S., Mexico and China and the rising tide of Chinese manufactured imports to the U.S. in the past ten years. China is only the most dramatic case of the gathering threat of offshore sourcing.

3) **The manufacturing sector in Pennsylvania is dynamic. Some industries in the sector are growing and concentrated in the state, while others (including many of the traditional manufacturing industries) are declining.**

FINDINGS

4) Sixteen driver industries that produce nearly half of Pennsylvania's manufacturing output have grown and concentrated in the state in the past 10 years. These industries and their associated clusters of in-state suppliers provide a substantial portion of the export earnings of Pennsylvania manufacturing, thereby making a major contribution to the prosperity of the commonwealth.

5) A shift and share analysis of the change in gross product for the entire economy of Pennsylvania from 1999 to 2001 showed that all of the growth in gross state product attributable to local competitive factors from 1999 to 2003 is attributable to the 16 manufacturing driver industries of the state. Without these industries the state would have experienced a profound recession.

The Deloitte team that conducted the study looked in deep detail at the performance of more than 300 distinct industries in Pennsylvania over the past 10 years. The objective was to determine the driver industries that do the most to create jobs and export goods to the rest of the nation and the world, thus creating wealth in the state. In addition, driver industries are concentrating in Pennsylvania, as compared to the rest of the U.S. The results are presented in the chart below.

These industries are the dynamic core of Pennsylvania manufacturing in this decade. They are not the only source or wealth and good jobs, of course. As the study shows, several additional industries are important to specific regions in the state. Others are still large but in steady decline. However, the 16 industries defined as drivers of Pennsylvania manufacturing do contribute almost **half** of all our manufacturing output and together were the source of **all** growth in output during recent years.

Special attention must be paid to these industries and their supply chains, in order to achieve stronger growth in Pennsylvania's manufacturing sector. The study defines in detail those supplier industries clustered with the drivers.

THE ECONOMIC ANALYSIS IDENTIFIED 16 MANUFACTURING DRIVER INDUSTRIES FOR PENNSYLVANIA

Industry	2003 Output ($million)	2000-2003 Output CAGR (%)	1998-2003 Output CAGR (%)	1993-2003 Output CAGR (%)	2003 Output Location Quotient (LQ)	1993-2003 Output LQ Growth (%)
Pharmaceuticals	$6,684	0.7%	4.6%	5.2%	3.44	12.6%
Electrical Equipment	$4,612	4.6%	5.9%	7.9%	1.42	-18.5%
Plastics	$2,818	1.8%	2.9%	5.0%	2.22	53.0%
Printing*	$2,287	-2.2%	-1.4%	-1.0%	1.95	41.0%
Food**	$2,149	-1.7%	-0.2%	0.3%	2.35	26.8%
Paper	$2,109	-1.8%	-1.1%	0.4%	2.55	71.7%
Basic Chemicals	$1,944	-3.5%	0.1%	-0.7%	1.80	9.4%
Metalworking Machinery	$1,842	0.7%	-0.2%	7.7%	1.35	8.7%
Architectural and Structural Metals	$1,653	-1.1%	0.4%	2.3%	1.97	16.9%
Machine Shops/Screw, Nut and Bolt Manufacturing	$1,614	0.9%	1.2%	6.5%	1.56	10.0%
Other Fabricated Metals	$1,398	-1.8%	-1.2%	2.4%	1.94	27.6%
Wood Products	$1,302	-1.5%	-0.5%	2.5%	1.43	53.7%
Furniture	$1,271	1.0%	1.7%	2.8%	1.61	61.3%
Resin, Rubber and Fibers	$1,248	-3.6%	0.2%	0.7%	1.84	11.8%
Galss	$938	-5.3%	-3.7%	0.5%	3.50	23.5%
Medical Equipment	$855	5.7%	3.8%	2.4%	1.97	92.4%

*Printing may include printing services. **Food data represents Sugar and Confectionary and Bakeries and Pasta Industries only.
Note: CAGR (Compound Annual Growth Rate) is average annual growth rate over a specified period of time. CAGR is calculated using the following formula: CAGR=((present value/base value)^(1/# of years)) -1

Source: Deloitt

FINDINGS

7)

Economic development policy and strategy is best viewed by analyzing a firm's cash statement. The key to surviving and prospering during the 1990s was process innovation (i.e., being faster, better and cheaper). In other words, squeezing the middle lines of the cash statement. During the upcoming decade, price pressures will not relent; they will intensify. The keys to success in this decade lie in growing the top line of the cash statement through sales growth. Process innovations increasingly will be introduced through product innovation.

The best escape from the vice of commodity product price competition is through innovation. Growing, profitable firms will succeed, because they achieve and sustain distinctive competencies, primarily in the product features they offer but also in the services they provide to their large manufacturing customers.

As long as steady development keeps the products fresh and distinct, firms can price what they offer, based on the value they deliver to customers, rather than the cost of competitors from low-wage regions. This finding has very significant consequences for Pennsylvania's economic development strategy in the 21st century and especially the role and responsibilities of the state's Industrial Resource Centers and other economic development organizations.

8)

The industries that drive Pennsylvania's manufacturing performance, considered as a portfolio, have distinct needs, requiring distinct strategies by Pennsylvania's economic developers.

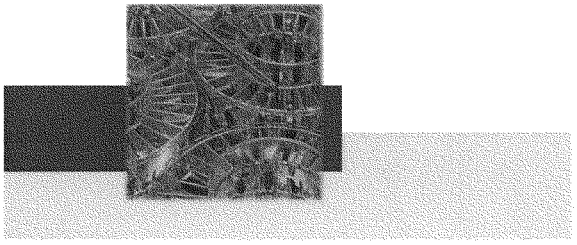
Pennsylvania and all the regions across the planet with which we now compete have entered the era of flexibly focused, customized and targeted economic development strategy. One size no longer fits all. Successful regions will assess their strengths and challenges industry by industry, understand the distinct needs of each and take those actions within the scope of public and public-private partnerships.

This is not "picking winners and losers" as some misguided critics of intelligent economic development policy once charged, but wise strategic investment to grow the commonwealth in economies shaped by market forces. The chart on the right summarizes some of the study's analysis to support such a strategy by Pennsylvania economic developers.

The chart assigns positions to the 16 driver manufacturing industries, based on many determinants, including size and growth in output and employment, export earnings and increasing concentration in the state. Each is an asset for the Pennsylvania economy; each has distinct features, needs and possible futures in the commonwealth.

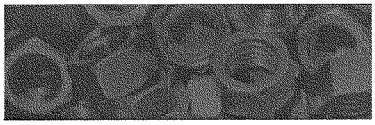
The vertical axis shows each driver industry's growth in output over the past 10 years. Most have grown, several robustly (e.g. electrical equipment and pharmaceuticals). A few (e.g. wood products and metalworking machinery) have contracted slightly but are still drivers based on all factors taken together.

The horizontal axis shows each driver's "location quotient" with regard to Pennsylvania. A value of 1.0 or more indicates that the industry is more concentrated in Pennsylvania than it is, on average, throughout the entire United States. Higher is better. The obvious stars are plastics and, once again, pharmaceuticals.



FINDINGS

9) The small- and medium-sized firms that are the broad foundation of manufacturing in Pennsylvania face distinct challenges in the global economy. The commonwealth will prosper if many more small- and medium-sized firms develop well-informed strategies that give them distinctive positions in the marketplace, based on product innovation and continuous improvement of enterprise performance. The needs of small- and medium-sized manufacturers in Pennsylvania must be better understood and their voices better heard.



The study gave special attention to the issues and needs of small- and medium-sized manufacturers, which provide more than half of the industrial output nationwide, and more than two-thirds of manufacturing employment. Smaller firms typically do not have the strategic luxury of relocation but are typically the victims of offshore sourcing by large transnational corporations who no longer feel any loyalty to specific regions and nations.

The key findings with regard to small- and medium-sized firms, and the distinctions between their issues and those of large firms, are summarized in the chart below. Again, the most important theme is the need for strategy and innovation to help smaller firms establish and sustain the distinctive competencies that enable them to assign sustainable prices and grow, both in profitability and employment.

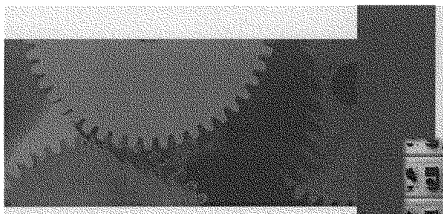
KEY MACRO ISSUES

Strategy, product innovation, performance improvement, workforce development and advocacy/education were macro issues recurring consistently throughout the analysis.

SME = Small Manufacturing Enterprise ●Low ●●●●Higl

Key Macro Issue		Importance by Firm Size SME	Large Firm
Strategy	For SMEs, business strategy, including the ability to assess new markets for products, new operating models, and opportunities for the business was determined. For large firms the implementation of strategy appears to be the issue.	●●●●	●
Product Innovation	Both large firms and SMEs need to continue to innovate their product lines to adjust to market forces, regulation, and growth expectations. Skills for product innovation appear to be critical, particularly funding, management, and technical skills.	●●●●	●●●
Performance Improvement	SMEs appear to need a variety of internal performance improvement assistance activities. Continuous improvement from an operations perspective is critical for competition as the market changes sales and services.	●●●	●
Workforce Development	Both large firms and SMEs need workers with the right combination of skills. Attracting, training, and retaining workers is often challenging. The problem is often exacerbated by negative perceptions about manufacturing as a career and/or about lifestyle in a particular region.	●●●●	●●●
Advocacy/Education	Large firms drive the regional economy. While they typically have the required scale to deal with issues that are internal to the firm, they are particularly vunerable to external issues such as public policy, insfrastructure, and labor markets — market forces that they adjust to through consolidation, relocation, and divestiture. SMEs tend to have diverse points-of-view and do not aggregate their potential public policy power into a single voice. Additionally, they desire education on opportunities for growth in chaning markets (off-shoring and globalization).	●●	●●●

Source: Deloitt



To read the complete, comprehensive report, visit www.catalystconnection.org/bkh/report.htm.

CONCLUSION

COOPERATION FOR COMMONWEALTH

Manufacturing remains profoundly important to the Pennsylvania economy and the life chances of millions of Pennsylvanians. While some manufacturing industries continue a long-term decline, others are growing in output and employment in the commonwealth. Sixteen growth industries have concentrated even more in Pennsylvania during the past ten years. These industries deliver nearly half of the $64 billion that manufacturing contributes annually to the Pennsylvania gross state product.

As Pennsylvania economic developers serve all enterprises in the state, they should give special attention to these sixteen driver industries and to the Pennsylvania manufacturers that supply them with key inputs. Enhancing these value chains will do the most to create wealth in the state. The present forces acting on and within Pennsylvania industries could produce several distinctly different futures for manufacturing. Pennsylvania has an opportunity now to support the strategic vigor and innovation of thousands of manufacturers and thereby assure the best possible future for the economy of the commonwealth.

The study summarized here was the most substantial analysis ever undertaken of the manufacturing endowment of a state. It was conduced at a time when regions everywhere in the global economy have begun to discover that they must compete as surely as the enterprises they host. To prosper now, manufacturing regions must:

- understand deeply the capabilities and performance of the manufacturers located there.
- analyze where smart services can provide advantages to viable manufacturers in the region.
- develop, deliver and evolve those services for maximum impact on the region.

The analysis and recommendations offered here can give Pennsylvania a competitive advantage in the next few years, but only if Pennsylvanians cooperate. In the demanding global economy, public and private sector leaders, enterprises with a common commitment to regional success and economic developers responsible for growing the commonwealth can, working together, create a more secure and rewarding future.

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