

**H.R. 4692, THE NATIONAL MANUFACTURING
STRATEGY ACT OF 2010**

HEARING
BEFORE THE
SUBCOMMITTEE ON COMMERCE, TRADE,
AND CONSUMER PROTECTION
OF THE
COMMITTEE ON ENERGY AND
COMMERCE
HOUSE OF REPRESENTATIVES
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**H.R. 4692, THE NATIONAL MANUFACTURING
STRATEGY ACT OF 2010**

WEDNESDAY, JULY 14, 2010

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON COMMERCE, TRADE,
AND CONSUMER PROTECTION,
COMMITTEE ON ENERGY AND COMMERCE,
Washington, DC.

The Subcommittee met, pursuant to call, at 2:04 p.m., in Room 2322 of the Rayburn House Office Building, Hon. Bobby Rush [Chairman of the Subcommittee] presiding.

Members present: Representatives Rush, Schakowsky, Sutton, Green, Gonzalez, Barrow, Braley, Dingell, Whitfield, Stearns, Terry, Murphy, Gingrey, Scalise and Latta.

Also present: Representative Lipinski.

Staff present: Michelle Ash, Chief Counsel; Angelle Kwemo, Counsel; Tim Robinson, Counsel; Peter Ketcham-Colwill, Special Assistant; Will Wallace, Special Assistant; Brian McCullough, Senior Professional Staff; Shannon Weinberg, Counsel; Robert Frisby, Detailee; Sam Costello, Legislative Assistant; and Ike Brannon, Committee Economist.

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

Mr. RUSH. The subcommittee will come to order. I want to thank the members of the subcommittee who have joined us today for participating in this legislative hearing. This afternoon, we will examine a very important bill introduced in February by my dear friend from Illinois, Congressman Dan Lipinski, and I want to commend him for his leadership on this issue. And at this point, I want to ask unanimous consent that Congressman Lipinski be allowed to join us on the dais, be allowed to make an opening statement, and be allowed to ask questions for 5- minutes at the conclusion of the opening statements and also the questioning by members of the committee. Hearing no objections, so ordered.

The Chair recognizes himself for 5 minutes for the purposes of an opening statement. H.R. 4692, the National Manufacturing Strategy Act of 2010, has bipartisan support from members of Congress, including many who serve on this subcommittee. Addressing manufacturing issues is not new to this subcommittee. Last year, we highlighted the need to make the exportation of manufactured goods a national priority for the simple fact that America's manufacturing sector is an essential foundation of our Nation's economy.

Consider the fact that in 2009 the manufacturing sector employed more than 11.5 million people.

Ladies and gentlemen, that number, though significant, is not as good as it could be when you consider that 10 years ago America's manufacturing sector employed 17.3 million people, meaning that our Nation actually lost 5.8 million jobs between 1999 and 2009. The bill we are considering today seeks to make a significant difference in helping to restore and reposition our Nation's manufacturing capacity so that American workers can better compete in today's global economy. Today, we are still fighting our way through a global financial crisis, and we are facing aggressive competition from other industrialized nations as well as emerging countries. Some of our manufacturing competitors have designed and implemented 5 or 10-year strategic plans to allow their economies to not only compete globally, but also to export their goods to our market here at home. The sad fact of the matter is that these international markets are not reciprocating by welcoming U.S. goods to their marketplace.

In recent years, the U.S. has actually lost market share to growing export countries like China, Southeast Asia and India. If we do not act now, this steady decline will increase. We simply cannot allow that to happen and, thankfully, President Obama agrees. I commend the President for the significant steps he has already taken to strengthen our manufacturing sector. The President's Council of Advisors on Science and Technology continues its assessment of the state of our Nation's manufacturing sector, its policies and its initiatives. Their efforts are moving steadily toward a set of recommendations designed to strengthen our Nation's manufacturing sector.

With H.R. 4692, the bill we are considering today, we take a major step toward this shared goal. This bill requires the President to undertake a deep and broad analysis of the Nation's manufacturing sector, including the international economic environment, related technological developments, workforce elements, the impact of governmental policies and other relevant issues affecting domestic manufacturers. Based on this analysis, the President, in collaboration with key cabinet officials within his Administration as well as governors, state and local elected officials and other key stakeholders in the public and private sectors will develop a 4-year national strategy that identifies goals and makes recommendations to improve our Nation's economic growth. Key provisions of this legislation include a provision requiring that the proposed national strategy be delivered to Congress and that it be published on a web site to allow the American people to be able to monitor for themselves our efforts to change course as we work to return the American workforce to the front line in terms of manufacturing skills and innovation.

With that, I look forward to hearing from my colleagues on this subcommittee as well as our invited guests. Thank you, and I yield back the balance of my time. The Chair now recognizes the ranking member, Mr. Whitfield, for 5 minutes for the purposes of an opening statement.

[The prepared statement of Mr. Rush follows:]

NEWS FROM		
Congressman Bobby L. Rush		
REPRESENTING THE PEOPLE OF THE FIRST DISTRICT OF ILLINOIS		
	709-706 E. 79th Street Chicago, IL 60619 phone: 773-224-6500 fax: 773-224-9624	3235 W. 147th Street Midlothian, IL 60445 phone: 708-224-6500 fax: 708-385-3860 www.house.gov/rush/
		2416 Rayburn HOB Washington, DC 20515 phone: 202-225-4372 fax: 202-226-0333

FOR IMMEDIATE RELEASE
July 14, 2010

CONTACT: Sharon Jenkins
 (202) 225-4372 ofc.; (202) 431-8191 mobile
Sharon.Jenkins@mail.house.gov
 - or -
 Stephanie Gadlin
 (773) 224-6500 ofc.; (202) 286-9829 mobile
Stephanie.Gadlin@mail.house.gov

Statement by the Honorable Bobby L. Rush, Chairman
 Energy and Commerce Committee Subcommittee on
 Commerce, Trade and Consumer Protection
 Hearing: H.R. 4692, the "National Manufacturing Strategy Act"

Wednesday, July 14, 2010

WASHINGTON — "The subcommittee will come to order. I want to thank the members of the subcommittee who have joined us, today, for participating in this legislative hearing.

"This afternoon, we will examine a very important bill introduced, in February, by my dear friend from Illinois, Congressman Dan Lipinski. I commend him for his leadership on this issue.

"H.R. 4692, the National Manufacturing Strategy Act of 2010, has bipartisan support from Members of Congress, including many who serve on this subcommittee.

"Addressing manufacturing issues is not new to this subcommittee. Last year, we highlighted the need to make the exportation of manufactured goods a national priority for the simple fact that America's manufacturing sector is an essential foundation of our nation's economy. Consider the fact that in 2009, the manufacturing sector employed more than 11.5 million people.

"Ladies and gentlemen, that number, though significant is not as good as it could be when you consider that, 10 years ago America's manufacturing sector employed *17.3 million people*—meaning that our nation actually lost *5.8 million jobs* between 1999 and 2009.

— more —

“The bill we’re considering, today, seeks to make a significant difference in helping to restore and reposition our nation’s manufacturing capacity so that American workers can better compete in today’s global economy.

“Today, we are still fighting our way through a global financial crisis, and we are facing aggressive competition from other industrialized nations as well as emerging countries. Some of our manufacturing competitors have designed and implemented five- or 10-year strategic plans to allow their economies to not only compete globally but, also, to export their goods to our market here at home. The sad fact of the matter is that these international markets are not reciprocating by welcoming U.S. goods to their marketplace.

“In recent years the U.S. has actually *lost* market share to growing export countries like China, Southeast Asia and India.

“If we do not act now, this steady decline will persist. We simply cannot allow that to happen and, thankfully, President Obama agrees.

“I commend the President for the significant steps he has already taken to strengthen our manufacturing sector.

“The President’s Council of Advisors on Science and Technology continues its assessment of the state of our nation’s manufacturing sector, its policies and initiatives. Their efforts are moving steadily toward a set of recommendations designed to strengthen our nation’s manufacturing sector.

“With H.R. 4692, the bill we are considering today, we take a major step forward toward this shared goal. This bill requires the President to undertake a deep and broad analysis of the nation’s manufacturing sector, including the international economic environment, related technological developments, workforce elements, the impact of governmental policies and other relevant issues affecting domestic manufacturers.

“Based on this analysis, the President, in collaboration with key cabinet officials within his Administration as well as governors, state and local elected officials and other key stakeholders in the public and private sectors, will develop a *four-year national strategy* that identifies goals and makes recommendations to improve our nation’s economic growth.

“Key provisions of this legislation include a provision requiring that the proposed national strategy be delivered to Congress and that it also be published on a website to allow the American

people to be able to monitor, for themselves, our efforts to change course as we work to return the American workforce to the front of the line in terms of manufacturing skills and innovation.

“It is my sincere hope that this legislation, combined with concerted efforts by the public and private sectors, will mark a sea change in our culture that will help our manufacturing sector become bigger, bolder and better than it was in the past.

“The good news is, ladies and gentlemen, that I am convinced that those of us who are assembled here, today, share the same passion on this subject that I do.

“And with that, I look forward to hearing from my colleagues on this subcommittee as well as our invited guests.

“Thank you very much and I yield the balance of my time.”

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OPENING STATEMENT OF HON. ED WHITFIELD, A REPRESENTATIVE IN CONGRESS FROM THE COMMONWEALTH OF KENTUCKY

Mr. WHITFIELD. Mr. Chairman, thank you very much, and I certainly want to thank Mr. Lipinski for this legislation, and I know that we have people on our side of the aisle that support it. I do want to give some constructive criticism of this legislation. I think when we criticize, we also need to try to come up with suggestions to improve it because all of us are concerned about manufacturing. But I read through this bill three times, and I was quite concerned about it. First of all, we have a sense of Congress on 18 issues of concern regarding manufacturing, which is fine, and things like creating high quality jobs and increasing productivity, those types of issues. And then we have a task force that would be appointed by the President, and on that task force everyone on the task force are government employees. And then after the appointment of the task force, it says at a minimum they must consider the following issues, and there are 22, 23 of those issues.

Now the task force is to make recommendations. In addition to the task force, the President is supposed to appoint a National Manufacturing Strategy Board and there were 21 people that belonged to that board, and they should make recommendations to the task force. Now I noticed that the first report is due on February 28, 2011, and that is not very far from now. And when you consider all the things that have to be considered and you look at all the guidelines there also must be goals set and they spell out the specific goals that must be looked at, and then they make recommendations to fulfill those goals. Then you have the Strategy Board itself, and, as I said, it has 21 members, and of course after the first report is made the Government Accounting Office 3 years following that first report is supposed to do a review to determine whether or not there has been any success in fulfilling the recommendations made by the task force.

In addition to that, in developing each National Manufacturing Strategy the President acting through the Office of Science and Technology and Policy, which I believe will be on the panel today, must enter into an agreement with the National Academy of Sciences, and I am not sure if they are with us today or not. But the legislation points out what things they must consider, and then it talks about when the first report is due. And then in addition to that there are further required studies in order to inform future national manufacturing strategies not later than 60 days after enactment of this act the President shall enter into an agreement with the National Academy of Sciences to develop three more reports, one not later than 14 months after entering into the agreement, two not later than 20 months after entering into the agreement, and three not later than 24 months after entering into the agreement.

And while I have not had the opportunity to look at this in great depth, it would appear to me that there may be some ways to make this legislation more effective than it would be by maybe merging the Strategy Board and the task force and bringing in the private sector people along with the government people on the same board. So as I read through this, like I said, I think it is a wonderful idea.

We are all concerned about manufacturing but this bill is really complex and there are so many reports due in this bill that I am quite concerned really about the overall effectiveness of it. Having said that, I am open to being swayed by our distinguished panel here, and I would like to also, Mr. Chairman, just ask unanimous consent to place into the record a manufacturing strategy for jobs in a competitive America that was developed June, 2010, by the National Manufacturers Association in which they set out a number of recommendations and policies that they think would be helpful to reinvigorate the manufacturing industry in our county. And if there is no objection, I would just like to enter that into the record.

Mr. RUSH. Hearing no objection, so ordered.

[The information appears at the conclusion of the hearing.]

Mr. WHITFIELD. And with that, I yield back the balance of my time although you were kind enough. I still see I have 5 minutes left.

[The prepared statement of Mr. Whitfield follows:]

Statement of the Honorable Ed Whitfield
Ranking member, Subcommittee on commerce, Trade, and Consumer Protection
Hearing on H.R. 4692, the Manufacturing Strategy Act
July 14, 2010

- Thank you Mr. Chairman. Today's hearing is relevant as we discuss ways to improve our economy's output and improve long term prospects that provide jobs. Without significant changes to the manner we approach regulation of business, we cannot expect to improve our high unemployment or expect the economy to prosper in the long term.
- When we evaluate our current manufacturing sectors, we cannot overlook the fact productivity gains have made and their effect on the manufacturing and agricultural sectors. We require fewer workers to produce a greater number of goods, leading to some of the losses in manufacturing employment since their peak in the 1970's. But we but we still have approximately the same number of workers in manufacturing that we had a century ago. The difference is now we have grown the employment base by 100 million workers in other sectors that have flourished and we have achieved a much higher standard of living across the globe because of it.
- While H.R. 4692 targets the manufacturing sector with studies to focus on ways of improving their prospects, I am unconvinced we need to enact a law to require another study, and question the value one more study.
 - As described in the majority's hearing memo, there are a number of existing studies that have been conducted, including the President's own Economic Council that produced a study in December title "A Framework for American Manufacturing"
 - Additionally, Commerce Department has its own Interagency Working Group on Manufacturing Competitiveness, as does the National Science and Technology run the Interagency Working group on Manufacturing Research and Development

- We all agree we want to see our manufacturers remain globally competitive. But there are many other tools at our disposal that could improve manufacturers' prospects and grow jobs without a study. We have pending Free Trade Agreements with South Korea, Panama, and Columbia that could instantly increase our exports to those countries and boost our manufacturing sector if Congress were to pass them. Those agreements will instantly eliminate tariffs and restrictions to our goods that will increase our exports and increase jobs for those industries. And the benefits will accrue to more than just manufacturers: our agricultural sector could see substantial growth in meat exports to South Korea that some experts estimate will generate an additional \$2 billion in annual revenue.
- Rather than follow such known policies that will benefit our economy, I am concerned the legislation sets the table for another managed trade policy and industrial policy that directs taxpayer resources towards preferred sectors and businesses. Subsidizing businesses is not a policy Congress should endorse, lest we want to intentionally disadvantage all other businesses that are left on the outside because they are not "favored" industries.
- It does not help our manufacturers face a very high corporate tax rate here in the United States. Where other OECD countries have lowered their rates over the past two decades, our corporate tax rates have remained largely unchanged. If we can't provide good reasons for businesses to stay here, it is only wishful thinking they will remain.
- I want our companies to prosper, grow, and create employment opportunities in the United States. But I am also concerned the approach Congress is too often taking lately is to subsidize industries and seek to protect them from competition. As the WTO recently ruled, EU aid to Airbus was an illegal export subsidy that harmed Boeing. We should do well to avoid similar mistakes. And this legislation looks like it is a blueprint for channeling taxpayer resources to a particular industry.
- It is also noteworthy this Subcommittee considered a bill last month that is posing serious concerns not only for foreign manufacturers, but

also for our own companies that export. If we want to ensure our companies have access to foreign markets, we have to make sure we don't give our trade partners reason to enact retaliatory barriers. Protectionism fails and we should learn from past mistakes not to erect such barriers.

- I appreciate the witnesses' participation and I look forward to their testimony so we can make informed decisions whether this Committee needs to enact legislation to acquire the information this legislation would generate.

**OPENING STATEMENT OF HON. ROBERT E. LATTA, A
REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO**

Mr. LATTA. Thank you, Mr. Chairman, and Ranking Member Whitfield. Thank you for holding the hearing today on H.R. 4692, which relates to a subject that is very near and dear to my heart in the 5th Congressional District which is manufacturing. As many of you are aware, the heart of the Midwest is dependent on manufacturing and agriculture to maintain a viable and strong economy. In these tough economic times, it is important that Congress protect these dedicated, hard-working Americans. Ohio employs roughly 629,500 individuals in the manufacturing sector, and my congressional district is the largest manufacturing district in Ohio and the 20th largest in Congress. I do have some concerns, as Mr. Whitfield pointed out, with the legislation, and other pieces of legislation that have gone through the committee as we continue to see an expansion in federal bureaucracy and the creation of new studies in other federal programs as well as the creation of new commissions.

When it comes to a National Manufacturing Strategy to strengthen our manufacturing sector and help create jobs and business, we do need a common sense approach. Many companies and organizations are instituting their own National Manufacturing Strategy and one that does not need the taxpayer dollars and studies to accomplish it. Congress needs to create better tax policies and extend current tax reductions for businesses, small and large, who keep Americans employed and create jobs for the unemployed, not to burden businesses and the American people with job preventing legislation such as cap and trade and the health care legislation but pass the pending free trade agreements to create a level playing field with other countries and not impose harmful rules and regulations that burden or hinder industries, hinder economic growth and create much uncertainty that keep dedicated, hard-working Americans from retaining jobs.

With that, Mr. Chairman, I look forward to today's witnesses and working with the committee on manufacturing issues that face our country today. Thank you, and I yield back.

[The prepared statement of Mr. Latta follows:]

Congressman Robert E. Latta
Subcommittee On Commerce, Trade and Consumer Protection
July 14, 2010
Hearing on H.R. 4692, the National Manufacturing Strategy Act of
2010.

Good afternoon Chairman Rush and Ranking Member Whitfield. Thank you for holding this hearing on H.R. 4692, which relates to a subject that is very important to the Fifth Congressional District of Ohio, manufacturing.

As you may be aware, the heart of the Midwest is dependent on manufacturing and agriculture to retain a viable and strong economy. In these tough economic times, it is important that Congress protect these dedicated hard-working Americans. Ohio employs roughly 629,500 in the manufacturing sector, and my Congressional district is the largest manufacturing district in Ohio and the 20th largest in Congress.

I am concerned that with legislation such as H.R. 4692, and many others that have gone through this Subcommittee, we continue to see an expanse in government bureaucracy, creation of new “studies” and other federal programs, as well as the creation of new

commissions. When it comes to a national manufacturing strategy to strengthen our manufacturing sector and help create jobs and business, we need a common sense approach. It is my understanding that many companies and organizations are instituting their own national manufacturing strategy, one that does not need taxpayers' dollars and new studies or commissions to accomplish it.

Congress needs to create better tax policies and extend current tax cuts to small businesses and corporations who keep our Americans employed and send the unemployed back to work; not burden business and the American people with job-killing legislation such as cap-and-trade or the health-care bill; pass the pending free trade agreements to create level playing fields with other countries; and not impose harmful rules and regulations that burden all industries, hinder economic growth, and create much uncertainty that keep dedicated hardworking Americans from obtaining jobs.

With that being said, I look forward to hearing from today's witnesses and working with the Committee on manufacturing issues. Thank you and I yield back.

Mr. RUSH. The chair recognizes Dr. Gingrey for 2 minutes.

OPENING STATEMENT OF HON. PHIL GINGREY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF GEORGIA

Mr. GINGREY. Mr. Chairman, thank you. And I want to thank you for calling today's hearing on H.R. 4692, the National Manufacturing and Strategy Act of 2010. Improving manufacturing needs to be a major focus for us to get people back to work and to grow our economy. Mr. Chairman, I appreciate your willingness to have the subcommittee receive testimony on this important issue. Over the past decade, we have seen a once robust sector of the economy in decline. As the majority memo for this hearing indicates, we have lost 5.8 million manufacturing jobs since 1999. Given the success of this industry in the past, this statistic is decidedly negative. Furthermore, manufacturing continues to represent a smaller portion of the overall economy given that we have lost market share to our foreign competitors. Mr. Chairman, two to three times a year, I convene a meeting of leaders from across the industry, I call it my manufacturing and advisory committee, to advise me on how policy coming from Washington affects their ability to run their businesses. This is, of course, in my 11th Congressional District of Georgia.

I held one of the meetings on Monday, just this past Monday, at Dow Chemical in Marietta, Georgia, and during that round table session the message I received from them was overwhelmingly clear, current Washington policies are not helping create jobs or lower the cost of doing business. Instead, proposals like cap and trade and the newly enacted health care law, Patient Protection and Affordable Care Act of 2010, are only adding to regulatory burden placed on these companies. Additionally, we have not helped these companies expand their markets by enacting existing free trade agreements, Panama, Colombia, South Korea. We have not provided incentives to foreign companies to invest in United States by lowering our corporate tax rate.

One of the largest manufacturers in my district even told me that foreign manufacturing companies, his company, and I won't mention the name of the company but it is a Japanese company, they want to bring jobs to hard-working Americans. They will hold off on making those investments because of the current policies being pursued by this Administration and Congress, and, more importantly, the uncertainty of really not knowing how to deal with what is coming next. So, Mr. Chairman, I do applaud my colleague and good friend from Illinois, Mr. Lipinski, for raising awareness of these important manufacturing issues. I look forward to hearing from our panel of witnesses on how to grow manufacturing in the United States. Indeed, we look forward to that. And I yield back my time.

Mr. RUSH. The chair recognizes Mr. Green for 2 minutes.

OPENING STATEMENT OF HON. GENE GREEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. GREEN. Thank you, Mr. Chairman, for holding the hearing. I want to thank our colleague, Mr. Lipinski, for introducing this important piece of legislation, which I am a co-sponsor. It is impor-

tant that we closely examine the issue of domestic manufacturing and how we can bolster our economy by supporting our domestic manufacturing capabilities. I am a co-sponsor of this bill because I believe it takes the right approach toward analyzing our country's capabilities. This bill directs the President to develop a long-term plan for supporting our domestic manufacturing and ensuring that it includes the input of an array of private sector participants. Currently, there are many federal programs aimed at increasing our manufacturing sector, and I am concerned that these programs lack coordination, efficiency and are reactive to events and may leave our workers and companies unprepared for a challenge that will present them in the future. It is important that we put Americans back to work, and one of the ways we can accomplish this is by improving our capacity of manufacturing.

Our district in Houston has a great deal of manufacturing related to the oil and gas production, refinery, and chemical industry, but we have capacity to do more. This is the story across the country. While our unemployment has fallen from its peak, we must remain focused on job creation in short term and long term. I believe this bill represents a long-term remedy and will give Congress, the President, and private sector stakeholders the tools necessary to spur growth in manufacturing. Again, Mr. Chairman, thank you for your leadership on calling the hearing, and I yield back my time.

Mr. RUSH. The chair recognizes Mr. Gonzalez for 2 minutes.

Mr. GONZALEZ. I waive opening.

Mr. RUSH. The chair recognizes Mr. Terry for 2 minutes.

OPENING STATEMENT OF HON. LEE TERRY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEBRASKA

Mr. TERRY. Thank you, Mr. Chairman, and I am anxious to hear from our esteemed panel here, the breadth of what this bill will allow with the new committees to look into this. I would like to know if we are working under a premise that the Administration's report that they put out is incomplete and therefore necessary to duplicate it in some manner with this bill. I wonder and would like to have input whether or not these panels will look at, as Mr. Gingrey said, look at cap and trade. Will it look and say, oK, if we are going to raise electric rates, natural gas rates, and transportation fuel whether that will impact decision making by manufacturers to stay in the United States or move overseas. Look at the health bill where now we have a health bill, most manufacturers are over 50 employees, even the smaller ones that are around my district, and all make more than 25,000, so they will have more bureaucratic responsibilities with none of the benefits from this health care bill. They will even go far as if they buy pizza for their employees on Fridays that they will have to 1099 Pizza Hut now.

Are those the type of bureaucratic things that you will look at to determine if that provides a lack of incentive to manufacturers to stay within the United States. Also, look at OSHA. And I have a letter here from one of our manufacturers in Nebraska who has one of the best proven safety programs, so what do they get instead of congratulations? They get a letter saying your establishment was selected from a list of low rate establishment and high rate industries. Congratulations. You get an additional audit. And we wonder

why our manufacturers are moving to China. There is less government interference in China than there is in the United States now.

And, by the way, this was so intrusive that they personally pulled all of the employees off the line for interviews. They walked into every doctor's office and hospitals in the area asking for employee records. Why? Because they had a successful safety program. Our bureaucracy is chasing our jobs overseas. It is not a secret. I yield back.

Mr. RUSH. The chair recognizes the gentlelady from Ohio, Ms. Sutton, for 2 minutes.

OPENING STATEMENT OF HON. BETTY SUTTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Ms. SUTTON. Thank you, Chairman Rush, for holding this important hearing on the National Manufacturing Strategy Act. Manufacturing is the backbone of our economy, our national security, and our country, and it is long past the time but we must stand up for U.S. manufacturing. Now I am proud to say that I am a product of a manufacturing household. When I grew up it was the time when people could count on a good manufacturing job to put food on the table and cover health care costs and supply a pension. But, unfortunately, our Nation has witnessed the loss of millions of good manufacturing jobs due to unfair trade practices and policies that put our companies and our workers at a disadvantage. Over the last decade, the U.S. has lost roughly six million manufacturing jobs. In Ohio since 2000, we have lost more than one in three manufacturing jobs. Many of these jobs have gone to China. According to a recent Economic Policy Institute report unfair trade with China has cost our Nation 2.4 million jobs between 2001 and 2008, and that is unacceptable.

Ohio has lost nearly 92,000 jobs because of China alone. In my congressional district, 5,700 jobs have been lost as a result of China's current fee manipulation and other illegal subsidies and unfair trade barriers. These are good-paying jobs that pay families supporting wages, and they have a multiplier effect. Each manufacturing job can generate at least four other jobs in the private sector. So I am proud to be an original co-sponsor of this bill and there must be coordination among the various agencies to develop a cohesive strategy. We just focus on replacing policies that reward businesses for outsourcing jobs with incentives and sensible tax policies that will help businesses and workers make it right here in America. We must develop a trade model that puts an end, an enforceable end, to current fee manipulation, illegal subsidies, and product dumping, one that requires reciprocity of market access, and one that ensures that products produced elsewhere will be safe for consumption here in the United States. With that, Mr. Chairman, I thank you again for holding this hearing, and I yield back.

Mr. RUSH. Mr. Stearns is recognized for 2 minutes.

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

Mr. STEARNS. Thank you, Mr. Chairman. I want to welcome our witnesses and also thank you for having this hearing. I would say to Ms. Sutton and others who have sponsored the bill that you

should be aware that there is a report by the Executive Office of the President, December, 2009, entitled A Framework for Revitalizing American Manufacturing. And a lot of the things that you have mentioned are already in this report. So I think like others I am a little concerned that by passing this bill, we will duplicate what has already been done and we are going to create a brand new commission, like entities. Of course, that means all new government employees and all that goes with it when we actually have a report here that is outlining what should be done to the President, and, frankly, Mr. Chairman, I think the President has the power and responsibility to call up any manufacturing CEO in this country and ask them what should be done. He could canvas them every 6 months, every 3 months, whenever he wants, and, lo and behold, he could find out all this information without passing H.R. 4692.

The other thing I have concern about is people talk about the loss of manufacturing jobs, and I think that is true, but I think one of the reasons is because the corporate tax rate is too high in the United States. I got a graph here in 1981 the United States was over 40 percent corporate tax and most of the OECD countries were at 45 percent. Do you know what it is today? The United States is at 35 percent and the OECD countries on average are less than 25 percent. So right there is something that immediately, Mr. Chairman, do we lower the tax rate for corporations? That would be a big incentive for corporations to continue manufacturing.

Also, I think, as mentioned, signing free and fair trade agreements to open up new markets is a good idea for American products, obviously, providing regulatory relief and creating investment tax credit for new manufacturing investment. I bet you if we went to the Manufacturing Association and asked them which approach they would rather have is the corporate tax relief, investment tax credits, free markets, I think they would all approve of that perhaps better than setting up new commissions and new entities and new government employees. So I think we should caution ourselves as we move forward but I certainly welcome the panel and am interested in their comments. Thank you, Mr. Chairman.

Mr. RUSH. Mr. Braley is recognized for 2 minutes.

**OPENING STATEMENT OF HON. BRUCE L. BRALEY, A
REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA**

Mr. BRALEY. Thank you, Mr. Chairman, and thank everyone for the time and attention they give to this very important topic. It is true that the President has talked about a National Manufacturing Strategy but it is incumbent upon us to take the underlying cause of why we have slipped so far in our country's strong history of manufacturing as a model for what we need to do to right the ship and go forward. My friend from Nebraska made the comment that there is less government intrusion in China than in the United States. Many of the Chinese manufacturers are, in fact, arms of the Chinese government so I fail to see how that is relevant to the conversation we are having here.

The reality is that in states like Iowa, which has a long history of being a part of the Midwestern Rust Belt, we have seen some of our most reliable employers like Maytag, Amana, and companies

like John Deere, Caterpillar, other companies that have been a part of the fabric of our state for over a century start to ship jobs overseas because of the failure of this country to have a coherent National Manufacturing Strategy. That is why this bill is important. That is why this hearing is important. And I look forward to hearing the testimony of our witnesses as we move forward. Thank you, Mr. Chairman.

Mr. RUSH. Mr. Murphy is recognized for 2 minutes.

OPENING STATEMENT OF HON. TIM MURPHY, A REPRESENTATIVE IN CONGRESS FROM THE COMMONWEALTH OF PENNSYLVANIA

Mr. MURPHY. Thank you, Mr. Chairman. For more than 100 years the U.S. has ranked number one in the world of manufacturing output. Next year for the first time since we overtook at the turn of the 20th century, the U.S. is going to give up that title to China, which displaced more than 2.3 million U.S. manufacturing jobs in the last decade often selling defective products like toxic drywall and poisonous pacifiers, which we have had hearings on before. While unemployment has remained above 9-1/2 to 10 percent in this country, we have passed bills that have been by all accounts measure to actually lose jobs in America, cap and trade, health care, and others. And although we certainly want to see jobs come out as in the green energy issue such as wind and solar and also insulating buildings, I would much rather see us also employing thousands of workers to build clean coal power plants, nuclear power plants, and rebuilding America's energy infrastructure which is hopelessly outdated.

Our country does need a comprehensive manufacturing strategy, and, quite frankly, I would like to see our committee playing a key role in this rather than necessarily relinquishing it to someone else. Part of that is to make sure that we are pushing to hold China and other countries accountable for unfair and illegal trade practices like the Currency Reform Act that Congressman Tim Ryan and I have put forth ensuring American dollars intended to create American jobs are invested in American steel and American equipment, provide American manufacturers with tax relief, tax credits, loan guarantees, job training, and other financial incentives all to create American jobs, not create federal agencies and there is more intrusiveness.

One of the questions I want this panel to be prepared with, I want to know how many of you have signed the front of a paycheck, how many of you have created manufacturing jobs, and if we create some other panel in the federal government, I want those people who have actually done this for a living, not people who talked about it, read about it, or stayed at a Holiday Inn last night. Thank you.

Mr. RUSH. The chair recognizes the Chairman Emeritus of the full committee, my friend from Michigan, Mr. Dingell, for 5 minutes.

OPENING STATEMENT OF HON. JOHN D. DINGELL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. DINGELL. Mr. Chairman, thank you, and I commend you for holding a hearing on H.R. 4692, the National Manufacturing Strategy Act of 2010, of which I am an original co-sponsor with my good friend from Illinois, Mr. Lipinski, who is the principal author. I commend him and I thank him. I would also like to extend a warm welcome to all of our witnesses today. I very much regret that Ron Bloom, who played a key and greatly appreciated role in diverting the disaster in the domestic automobile industry, cannot be with us today to express his views on the bill. I strongly disagree with the views of those who consider manufacturing an anathema to advance economies. Rather, it is an essential component of these economies. Right to the contrary. Several of our most prominent trading partners employ national strategies to support domestic, economic growth in manufacturing. China and Germany, most notably, use these strategies to aid their continued global leadership in, manufactured goods.

Indeed, as is particularly the case with Germany, these manufacturing exports need not be low value added but are rather technologically advanced goods of consistently high quality produced by very skilled workers. For example, as the global demand for clean energy technology continues to grow the strategy mandated under H.R. 4692 would help the United States develop and maintain a competitive position in this very important market which is so essential to our continued world leadership and economic strength. In brief, I view this legislation as part and parcel of the federal government's ongoing effort to create much-needed jobs and to adapt the country's economy to the future. I am quite gratified to see that H.R. 4692 rightly directs that the manufacturing strategy mandates include an examination of the detrimental effect of unfair trade practices on domestic manufacturing, a very much-needed activity by the federal government.

I firmly believe that the federal government must do all it can to ensure that our trading partners play by the rules in order to foster sustainable employment growth here as a part of a shared advantage to all countries from this kind of practice. I note this bill comes at a time when my home state of Michigan continues to endure record unemployment levels largely due to the hemorrhaging of manufacturing jobs caused by a decade of unfair trade practices and policies. I believe H.R. 4692 will serve in good part to right past failed policies, and as such I passionately support its expedited consideration and adoption. I look forward to a frank discussion with our witnesses today about their views on H.R. 4692. I thank you for your courtesy, Mr. Chairman, and I yield back the balance of my time.

Mr. RUSH. The chair recognizes the gentleman from Louisiana, Mr. Scalise, for 2 minutes.

OPENING STATEMENT OF HON. STEVE SCALISE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF LOUISIANA

Mr. SCALISE. Thank you, Mr. Chairman. I am pleased that our subcommittee is examining the manufacturing industry and the need for a National Manufacturing Strategy. I applaud my colleagues for bringing attention to this issue. As all my colleagues know, manufacturing is a major economic driver of our state's economies. In Louisiana alone, manufacturing employs over 140,000 people and accounts for over \$40 billion in economic output. I would also like to point out that the chemical and petroleum industries are tops among the manufacturing sectors in my state although I question whether these industries will continue to lead the manufacturing sector in Louisiana, given the reckless policies being pursued by this Administration such as the cap and trade energy tax and the moratorium on energy exploration in the Gulf of Mexico.

The United States must continue to lead the world on manufacturing. Congress must enact policies that ensure we do. The legislation before us today seeks to do. The legislation before us today seeks to undertake a broad analysis of the manufacturing sector and develop a National Manufacturing Strategy. I support the intent of this bill. We should look at strategies to help promote the manufacturing industry so we can determine what policies will help manufacturers compete in the global marketplace. But the industry does not need another study. It needs sound policies. If a manufacturing strategy is the goal all we have to do is look to the National Association of Manufacturers, the voice of manufacturing in the U.S., the very association that advocates for manufacturers, and they have developed a strategy, the manufacturing strategy for jobs in a competitive America.

It is a comprehensive approach for making manufacturing in the United States more competitive and productive. And what does the national voice of manufacturing say should be our strategy? It calls for lower taxes, less government regulation, and free access to foreign markets. It calls for effective policies that spur innovation, promote job growth and provide immediate results. Unfortunately, we have been getting the opposite from this Administration who has given us higher taxes, out of control government spending, and reckless policies like the President's moratorium on domestic energy production that is costing us thousands of jobs and reducing America's energy independence. It is no wonder that this reckless agenda has cost our Nation millions of jobs at a time when we should be sharply focused on creating jobs. I look forward to hearing from our panelists today on the merits of H.R. 4692, and on manufacturing strategies that have already been proposed. Thank you, and I yield back.

Mr. RUSH. The chair recognizes the vice chair of the subcommittee, the gentlelady from Illinois, Ms. Schakowsky, for 2 minutes.

OPENING STATEMENT OF HON. JANICE D. SCHAKOWSKY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Ms. SCHAKOWSKY. Thank you, Mr. Chairman. I am really excited that we are having this hearing today. I think it is probably one of the most important questions that we can deal with in our country. The manufacturing sector has taken an enormous hit in recent years, over 10 years from 1999 to 2009 nearly 6 million manufacturing jobs, more than a third of the entire sector, were lost. There have been many factors which I am sure a lot of people have talked about including tax incentives for companies that move jobs overseas. The House has passed a number of bills to rein in those tax advantages, but I think more should be done. Under the bill before us, every 4 years the President would have to issue a manufacturing strategy that considers federal policies including tax policy and how they promote or harm domestic manufacturing.

I think a critical component is the promotion of domestic manufacturing, and I will continue to advocate for rewards for businesses that create a real partnership with American workers, engage in good corporate practices, and improve our standing in the global marketplace. I have introduced a bill called the Patriot Corporations of America Act, which would reward companies that are good corporate actors by moving them to the front of the line for government contracts and giving them a 5 percent reduction in their taxable income. To qualify, those businesses would have to produce at least 90 percent of their goods and services in the United States and spend at least 50 percent of their research and development budgets in the United States.

There is no good reason that the trend of job loss in the manufacturing sector can't be reversed. There is great potential in our American companies. In Illinois, academic researchers in private labs are doing amazing things with nano technology while smart thoughtful individuals are transforming educational systems to educate our children in ways that will prepare them for advance manufacturing careers. I am optimistic about the future of manufacturing in America, and I hope this hearing will help us better understand what our next steps should be. I thank you again, Chairman, and I yield back the balance of my time.

Mr. RUSH. The chair recognizes now the author of the legislation that we are considering, the gentlemen from Illinois, Mr. Lipinski, for 2 minutes for the purpose of opening statement.

OPENING STATEMENT OF DANIEL LIPINSKI, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. LIPINSKI. Thank you, Mr. Chairman. I would like to request unanimous consent that my written statement be put in the record.

Mr. RUSH. Hearing no objection, so ordered.

Mr. LIPINSKI. I would like to thank my good friend, Chairman Rush, as well as Ranking Member Whitfield and the subcommittee for scheduling today's hearing. The Strategy Act has over 50 bipartisan co-sponsors in the House in support of a wide-ranging organization. At this time, I would like to request unanimous consent to enter into the record letters of support for this bill from some of these organizations.

Mr. RUSH. Hearing no objection, so ordered.

[The information appears at the conclusion of the hearing.]

Mr. LIPINSKI. I would also like to request unanimous consent for the record to remain open for 3 days to allow other pending letters of support to be entered.

Mr. RUSH. Hearing no objection, so ordered.

Mr. LIPINSKI. Thank you, Mr. Chairman. I look forward to hearing testimony from our witnesses. I would especially like to welcome Bill Hickey, President of Lapham-Hickey Steel, a family-owned steel manufacturer located in my district. Almost 1/3 of domestic manufacturing jobs have disappeared in the past decade and manufacturing share of GDP is roughly half of what it was in 1980. It is clear that allowing this trend to continue will further undermine the American economy and the middle class and also undermine our defense capability leaving us strategically vulnerable. To help avoid this, I introduced the Strategy Act. Although we currently have numerous federal programs and policies designed to support American manufacturing, they are generally disjointed, ad hoc, and reactive diminishing their impact. The goal of the strategy is to harmonize manufacturing policy and make a more unified, coherent, forward looking and result oriented.

It is important to point out that this is not an industrial policy or command market approach. Instead, it is a way to coordinate policy to better support American entrepreneurship and job creation. This bill was developed over many months with input and feedback from large and small businesses, academic trade associations and labor groups. I look forward to hearing from the witnesses and working with the members of the committee and others to examine ways we can improve upon this bill. I have heard some recommendations for changes we may make to this bill and I am looking forward to working with members of the committee and others, as I said, and incorporate some of these changes and make this a better bill because that in the end is a goal to make manufacturing stronger in America because it is certainly something we need for our economy and for our national defense. I yield back.

[The prepared statement of Mr. Lipinski follows:]

Opening Statement
Energy and Commerce Committee
Subcommittee on Commerce, Trade and Consumer
Protection
July 14, 2010, Hearing on HR 4692, the National
Manufacturing Strategy Act

I would like to thank my good friend from Chicago, Chairman Rush, as well as Chairman Waxman, Ranking Member Whitfield, and the members of the subcommittee for scheduling today's hearing on this bill, which I introduced earlier this year. The Strategy Act has over 50 bipartisan cosponsors in the House and the support of a wide-ranging group of organizations. At this time I would like to request unanimous consent to enter into the record letters of support for this bill from some of these organizations. I would also like to request unanimous consent for the record to remain open for a few days to allow other pending letters of support to be entered.

I look forward to hearing testimony from our distinguished witnesses, and I would especially like to

welcome Mr. Bill Hickey, President of Lapham-Hickey Steel, an 84 year old, family-owned steel manufacturer located in my district.

As Bill knows, and all the members of this committee know, manufacturing has been a pillar of our economy for generations and today employs 11.6 million Americans. Because manufacturing accounts for nearly two-thirds of U.S. exports, its expansion is critical to lowering our trade deficit and helping lead the country out of recession. Manufacturing is also vital for our national security, ensuring we remain self-sufficient in producing the goods necessary for our defense.

Unfortunately, almost one-third of domestic manufacturing jobs have disappeared in the past decade and manufacturing's share of GDP is roughly half of what it was in 1980. It is clear that allowing this trend to continue will further undermine the American economy and the middle class, while also leaving us strategically vulnerable.

To help avoid this, I introduced the National Manufacturing Strategy Act. Although we currently have numerous federal programs and policies designed to support American manufacturing – such as export assistance, research and development funding, and workforce training programs – these are generally disjointed, ad hoc, and reactive, diminishing their impact. The goal of the strategy is to harmonize manufacturing policy and make it more unified, coherent, forward-looking, and results-oriented.

HR 4692 first requires the President to conduct a comprehensive analysis of the Nation’s manufacturing sector, including everything from workforce issues to the availability of financial capital.

Then the President will convene a Manufacturing Strategy Task Force comprised of federal officials and two Governors to examine this analysis, solicit public views, and support the President's development of a Manufacturing Strategy. This strategy must include short- and long-term goals and recommendations related to improving domestic production, investment, international competitiveness, and assuring an adequate defense industrial base, among other areas.

The President is required to consider the input of a Manufacturing Strategy Board, a 21-person advisory group of private-sector leaders in manufacturing and related supply chain management, workforce, finance, and R&D.

The first Strategy would be due by February 2011, and subsequent Strategies will have to be submitted every four years by the end of February in the second year of each presidential term. This four year process is modeled after the Quadrennial Defense Review, allowing policies to be updated and refined based on changing conditions and lessons learned. To aid policymakers in their review, the Government Accountability Office would review the development and implementation of the strategy.

It is important to point out that this is not an industrial policy or a command market approach. Instead, it is a way to coordinate policies in order to better support American entrepreneurship and job creation. The National Manufacturing Strategy will help level the playing field with other countries, including not only China and India, but also the U.K., Brazil, and Canada, all of which benefit from more focused policymaking.

I would like to once again thank Chairman Rush and the subcommittee for holding this hearing. This bill was developed over many months, with input and feedback from large and small businesses, academics, trade associations, and labor groups. I look forward to hearing from the witnesses, and working with the committee and others to examine suggestions that may improve upon what is now in the bill.

Mr. RUSH. It is now my privilege to officially welcome the witnesses who have sacrificed their enormous and important time to be with us this afternoon for the purposes of this hearing. On my left, the Honorable Aneesh Chopra. He is the Associate Director for Technology and he is the Chief Technology Officer for the Office of Science and Technology Policy. Seated next to him is Mr. Scott N. Paul. He is the Executive Director of the Alliance for American Manufacturing. Seated next to Mr. Paul is Mr. Mark A. Gordon, who is the Director, Defense Research Programs for the National Center for Advanced Technologies. And seated next to Mr. Gordon is Mr. William M. Hickey, Jr., President and CEO of Lapham-Hickey Steel Corporation, and an outstanding citizen of the State of Illinois, I might add. And next to Mr. Hickey is Mr. Owen E. Herrnstadt. He is the Director of Trade and Globalization for the International Association of Machinists and Aerospace Workers. And seated next to Mr. Herrnstadt is Mr. Kevin A. Hassett. He is the Senior Fellow and Director of Economic Policy Studies for the American Enterprise Institute. I want to welcome each and every one of you here and welcome all to this subcommittee. It is the practice of this subcommittee to swear in witnesses. So I will ask that you please stand and raise your right hand.

[Witnesses sworn.]

Mr. RUSH. Please let the record reflect that the witnesses have all answered in the affirmative. And now I want to recognize the witnesses for their opening statement to be followed by questions from the subcommittee. Mr. Chopra, we will begin with you, and you have 5 minutes for your opening statement.

TESTIMONY OF ANEESH CHOPRA, ASSOCIATE DIRECTOR FOR TECHNOLOGY & CHIEF TECHNOLOGY OFFICER, OFFICE OF SCIENCE AND TECHNOLOGY POLICY; SCOTT N. PAUL, EXECUTIVE DIRECTOR, ALLIANCE FOR AMERICAN MANUFACTURING; MARK A. GORDON, DIRECTOR, DEFENSE RESEARCH PROGRAMS, NATIONAL CENTER FOR ADVANCED TECHNOLOGIES; WILLIAM M. HICKEY, JR., PRESIDENT/CEO, LAPHAM-HICKEY STEEL CORP.; OWEN E. HERRNSTADT, DIRECTOR OF TRADE AND GLOBALIZATION, INTERNATIONAL ASSOCIATION OF MACHINISTS & AEROSPACE WORKERS; AND KEVIN A. HASSETT, SENIOR FELLOW AND DIRECTOR OF ECONOMIC POLICY STUDIES, THE AMERICAN ENTERPRISE INSTITUTE

TESTIMONY OF ANEESH CHOPRA

Mr. CHOPRA. Thank you, Mr. Chairman, and Ranking Member Whitfield and other members of the subcommittee. It is indeed my distinct pleasure to be with you today to discuss the Obama Administration's strategy for revitalizing American Manufacturing with particular focus on advanced manufacturing. With your permission, I have submitted a more formal statement for the record but I would like to share a few remarks in advance of your questions. This is background. My mission and my responsibility in the Administration is to harness the power and potential of technology, data, and innovation to transform the Nation's economy and to improve the lives of every day Americans. Now building on the Presi-

dent's strategy for American innovation which was released last September and its framework for revitalizing American manufacturing, which was released in December, I would like to summarize my remarks on how we are investing in the creation of new technologies and business practices with emphasis on three key areas.

Number one, manufacturing research and development. The Administration is committed to doubling the basic research budgets of 3 key science agencies, the National Institutes of Standards and Technology, the National Science Foundation, and the Office of Basic Science within the Department of Energy. In my capacity as the co-chair of the National Science and Technology Committee on Technology, I am particularly focused on improving coordination across our agencies with a goal of establishing U.S. leadership in advanced manufacturing technologies. For example, the Defense Advance Research Projects Agency, DARPA, is currently investing approximately \$200 million a year or roughly \$1 billion over the next 5 years to synthesize and integrate high value manufacturing efforts. The goal is to shorten by five-fold the delivery time from concept to first production unit for complex electro mechanical defense systems by development of system designs, tooling, materials, and democratized design that enables the advantages of large scale manufacturing in quantities of one.

Second, I would like to highlight computational modeling and simulation. One technological capability that we believe holds great promise for enhancing manufacturing competitiveness is computational modeling and simulation. These tools impact several key elements of manufacturing competitiveness, quality, cost, flexibility, and time to market. Yet, they are not exploited by small and medium size manufacturing organizations who constitute over 90 percent of the U.S. manufacturing enterprises and contribute nearly half of the value added jobs. They lack access to this fundamental innovation.

As the co-chair of the National Science and Technology Council's Committee on Technology, I stood up a fast track inner agency subcommittee to identify gaps and challenges in computational modeling and simulation and to make recommendations within 90 days. The committee's report was posted on line for public input on June 24. I obviously welcome your feedback. By the way, for those interested, the web site is openstc.ideascale.com. Input we have received thus far suggests among other instruments that establishing regional innovation centers that focus on bringing small and medium-sized enterprises into the digital manufacturing age through collaboration efforts or through their supply chains and software vendors is an immediate and near term opportunity. Third, I would like to highlight one particular sector that I believe holds great promise for the manufacturing economy in the United States, and that is to highlight catalyzing breakthroughs in the Nation's smart grid.

This particular area, we believe, is poised for growth. By the way, a topic that happened to have occupied my morning at a hearing we held at the Brookings Institution a full day seminar on how we might take full advantage of the economic opportunities both in terms of manufacturing as well as the efficiencies that will be gained by the American people as we modernize the Nation's elec-

trical grid. As you may recall, the Recovery Act did include \$4.5 billion of investment. In a sense, that investment will help to expand our manufacturing base of companies that can produce the smart meters, the smart appliances, the smart transformers, and other components for smart grid systems that service both the United States and we believe could be potential for export around the world representing a significant and growing export opportunity for our country and new jobs for the American people.

In conclusion, we do believe that the United States still remains a land of tremendous opportunity and has a wonderful future. We retain that honor because of America's scientists, engineers, entrepreneurs and public officials understood the importance of applying the power of American curiosity and ingenuity to the biggest economic and societal challenges. I certainly would welcome any questions the committee may have. Thank you.

[The prepared statement of Mr. Chopra follows:]

Statement of Aneesh Chopra
Chief Technology Officer and Associate Director, Office of Science and Technology Policy
Executive Office of the President of the United States
to the
Committee on Energy and Commerce
Subcommittee on Commerce, Trade and Consumer Protection
United States House of Representatives
on
Advanced Manufacturing
July 14, 2010

Chairman Rush, Ranking Member Whitfield, and Members of the Subcommittee, it is my distinct privilege to be here with you today to discuss the Obama Administration's Strategy for Revitalizing American Manufacturing.

President Obama understands the importance of innovation for sustainable growth and quality jobs. On September 21st, 2009, he released his *Strategy for American Innovation* that identified three critical roles for the Federal Government: to invest in the building blocks of innovation; to create the right environment for private sector investment and competitive markets; and to serve as a catalyst for breakthroughs related to national priorities such as clean energy, high-quality health care, and other "grand challenges" of the 21st century. The strategy recognizes that a strong U.S. manufacturing sector is needed to make progress toward all three goals. On December 19th, 2009, the President released "A Framework for Revitalizing American Manufacturing" that identified seven principles to strengthen our manufacturing sector.

In my capacity as Assistant to the President, Chief Technology Officer, and Associate Director for Technology in the Office of Science and Technology Policy, my mission is to harness the power and potential of technology, data, and innovation to transform the Nation's economy and to improve the lives of everyday Americans. The Administration envisions an economy in which jobs are more plentiful, American firms are more competitive, American manufacturing is robust and exports of high tech products and services far exceed imports.

For the record, I will not be commenting on H.R. 4692, but rather my testimony will provide a perspective on the challenges the United States faces in manufacturing, the important role that innovation and Advanced Manufacturing play in meeting these challenges, and the Obama Administration's strong commitment to implement appropriate Federal policies to promote a strong, innovative U.S. manufacturing sector.

Manufacturing Challenges

The United States continues to lead the world in the production of manufactured goods, accounting for nearly 20 percent of global manufacturing output. The National Association of Manufacturers estimates that an increase in manufacturing creates more economic activity than a similar

increase in any other sector – every \$1.00 in manufactured goods generates an additional \$1.37 of economic activity. Manufactured goods represent 69 percent of our exports and manufacturing firms perform almost two-thirds of private sector R&D, the highest R&D intensity as a percentage of sales of any major industrial sector.

Manufacturing jobs have long been seen as the foundation of the “American dream” and an entryway into the middle class. Total hourly compensation in the manufacturing sector averages more than \$32.00, approximately 20 percent higher than average compensation in service industries. The manufacturing sector also boasts high and fast-growing productivity. Between 1987 and 2009, manufacturing productivity increased at a rate of 3.4 percent annually, as compared to only 2.3 percent for non-farm business as a whole.

In recent years, the size of U.S. manufacturing has declined – in its share of GDP, employment numbers, relative R&D spending, and innovation performance. Employment in the U.S. manufacturing sector has gone from 17.6 million jobs in 1998 to just 11.7 million currently. Even the trade balance in high-technology products – historically a bastion of U.S. strength – shifted from surplus to deficit for the first time in 2002 and has remained in deficit since then. At the same time, China’s trade position in high-technology products shifted to surplus beginning in 2001, and increased from less than \$13 billion in 2003 to almost \$130 billion in 2008.

The situation facing American manufacturing has become an issue in the current economic crisis. Existing manufacturing enterprises are under severe competitive pressure from both outsourcing and global competition. While innovation is clearly seen as the driver of economic prosperity, creating new products and processes from these innovations is crucial if the economic value of innovation is to be realized.

A recent benchmarking exercise by the Information Technology and Innovation Foundation (ITIF) measured U.S. and European nations’ innovation capacity against the rest of the world; the U.S. economy ranked sixth of 40 economies. But the exercise found that the U.S. ranked last in terms of “improvements in innovation capacity,” meaning the U.S. is relying on historical strengths and is in danger of sliding down future rankings. A recent Hollings Manufacturing Extension Partnership (MEP) Advisory Board report *Innovation and Product Development in the 21st Century* from the Department of Commerce contains similar findings.

These shifts are as important to the evolution of existing manufacturing enterprises as to emerging fields, such as nano-manufacturing, bio-manufacturing and next generation semiconductors. They also are critical for the nation’s educational institutions, which must prepare tomorrow’s workforce at a new and technologically sophisticated level.

The Need for Innovation

Innovation typically begins from scientific research that creates new opportunities for technological change. That basic research lays the foundation for the development of new products, services, or processes. But it does not end there. To create value, a new idea must be implemented through translational research and eventual incorporation into innovative products and services.

Successful innovations will diffuse throughout an economy and across the world, impacting various sectors and sometimes even creating new ones. And if the innovation is successful, then it can scale up to create new markets.

Ideas often fail before they make it through the full chain. But those that do succeed can create value and jobs while improving people's lives. For societies to prosper—both as producers of goods and services as well as consumers of them—innovations need to flourish and progress along this chain. And here, government has a fundamental role to play.

The government should:

- **Remove barriers** that inhibit the rapid movement of U.S. industry toward advanced manufacturing;
- **Accelerate R&D**, innovation, and commercialization in the U.S. manufacturing sector; and
- **Better equip** the U.S. workforce with the new knowledge and skills necessary to work at world-class levels of advanced manufacturing.

Administration's Policies and Initiatives to support Manufacturing

The Obama Administration's December 19th, 2009 report on "A Framework for Revitalizing American Manufacturing" identified key facts and assumptions that form the basis of a sound and comprehensive manufacturing policy. These include cost drivers that influence manufacturing location choices, environment impact, and productivity.

In order to understand the appropriate role for government to support manufacturing and capture its positive social impacts, we must first identify each cost driver in the manufacturing process beginning with raw materials and ending at the point of sale of finished goods. These cost drivers include labor, technology and business practices, equipment, location, transportation, access to markets, regulation and taxation.

The manufacturing sector is undergoing transformative change. We can help foster and facilitate this change and ensure that workers and communities thrive in the midst of this change if we take certain critical actions. Past manufacturing strategies have largely failed. Two different views have dominated these past approaches. One view was that manufacturing industries needed to be protected and insulated. Not only was this approach ineffective but it was also counterproductive. An alternative view was *laissez-faire*, cutting critical research and support programs and hoping the market will take care of problems. This approach has contributed to the steep job losses over the last decade but more importantly threatens to rob us of the potential for greater innovation over future decades. An alternative to these two poles is a strategy that recognizes that change is inherent in the economy and necessary for productivity growth. Evidence-based policy can help foster and channel this change and ensure that workers and communities can thrive in the midst of it.

The key to success lies in American workers, businesses and entrepreneurs – but the federal government can play a supporting role in providing a new foundation for American manufacturing. The right role for government is to optimize its own interaction with each key cost driver of the manufacturing

process.

The Obama Administration's policies and initiatives that support manufacturing can be broken into seven parts that draw on the lessons from analyzing the manufacturing process and government's role in each cost driver. We must:

1. Provide workers with the opportunity to obtain the skills necessary to be highly productive.
2. Invest in the creation of new technologies and business practices.
3. Develop stable and efficient capital markets for business investment.
4. Help communities and workers transition to a better future.
5. Invest in an advanced transportation infrastructure.
6. Ensure market access and a level playing field
7. Improve the general business climate, especially for manufacturing.

Some of these principles directly address the President's Innovation Strategy released in September 2009 "A Strategy for American Innovation: Driving Towards Sustainable Growth and Quality Jobs". I would like to highlight Administration efforts in two of these areas.

Investing in the Creation of New Technologies and Business Practices

The key manufacturing growth areas in the 21st century will be driven by new technologies and new areas of consumer demand. The most successful areas will be combinations of the two, such as using new technologies to satisfy the increasing demand for clean energy. In other areas, a new innovation like nanotechnology has the promise to transform production processes and consumer products for everything from traditionally high-tech products like computers to less obvious sources of innovation and growth like sunscreen and paint. New business practices and expertise will also be key drivers of competitiveness going forward.

There is often a debate about the right type of government support for advanced technologies. The *laissez-faire* approach is premised on the belief that private industry will simply develop the best innovations and technologies. This, however, ignores three critical facts. First, it is well established that the private sector often under-invests in the most basic research since it cannot capture all the benefits from such research. Second, spillovers exist between sub-industries. For instance, innovations in nanotechnologies are being applied to a wide range of areas. Third, coordination failures exist in which no individual makes an investment because it will not be profitable unless a number of others make similar investments. This is a problem that the United States is addressing in the electric car industry, for example, with a wide range of initiatives. Inventions from the telegraph to the jet engine, the microwave oven and the Internet did not happen simply because of private sector incentives.

On the other hand, policymakers must recognize that government has a poor track record in picking winners and losers. This is in part due to the limited ability of the government to predict the future, but it is also because such exercises are inevitably distorted by the political process. The new approach to manufacturing policy gets around these twin problems by recognizing that the government has a vital role to play in basic research, that it can help address the coordination problems and that it can

use innovative techniques to encourage economic development while avoiding picking winners and losers – for example, the relatively new policy tools of prizes and reverse auctions could be used to jump start technological advances and/or production in new manufacturing industries.

The Obama Administration is supporting new technologies in several key ways.

Basic research is fundamental to the economic growth of any society. The United States devotes less than three percent of GDP to research and development – a ratio that is exceeded by a number of countries including Japan, Sweden, Switzerland, South Korea, Iceland and Israel. The American Recovery and Reinvestment Act already included the largest increase in research and development in our history, a total of more than \$18 billion. Increases must be sustained and linked to America's manufacturing success. The Obama Administration will:

Double the R&D budgets of key science agencies. President Obama has proposed to double the research budgets of three key science agencies (the National Science Foundation, the Department of Energy's Office of Science and the National Institute of Standards and Technology's laboratory programs).

Improve coordination of manufacturing-related R&D. The National Science and Technology Council will develop a strategy for coordinating the federal government's investments in research with the goal of establishing U.S. leadership in advanced manufacturing technologies. Some of the examples of this research include:

- Nanomanufacturing and the application of nanotechnology to traditional manufacturing industries;
- Creating the foundation for a "bio-economy" that uses biotechnology to make "green" chemicals;
- Developing advanced robotics technologies that allows the U.S. to retain manufacturing and respond rapidly to new products and changes in consumer demand;
- Integrating manufactured goods and information technology to create "cyberphysical systems" that have greater adaptability, autonomy, efficiency, functionality, reliability, safety and usability.

Explore new options to stimulate innovations and technological breakthroughs. The Administration will explore the possibility of using prizes and reverse auctions as a complement to grants, tax credits and other mechanisms currently used to spur innovative technologies. The advantages of using prizes and reverse auctions are that success is rewarded directly on an objective, demonstrated basis, and federal money is used to leverage private sector resources in a targeted manner. These approaches could target many key areas identified as likely manufacturing-related wealth and job creators of the future, including batteries, nanotechnology, clean energy and bioengineering. The prizes and reverse auctions could work together, with prizes incentivizing the necessary breakthroughs in basic research and reverse auctions supporting early stage of commercialization and production.

Make the research & experimentation tax credit permanent. To give companies the certainty they need to make long-term research and experimentation investments in the U.S., the Administration's 2011 budget includes the full cost of making the R&E credit permanent in future years. Making this tax

credit permanent will provide businesses with the greater confidence they need to initiate new research projects that will improve productivity, raise standards of living, and increase our competitiveness.

Spur innovation in manufacturing by Increasing the Technology Innovation Program (TIP). The TIP supports, promotes and accelerates innovation in the United States through high-risk, high-reward research in areas of critical national need. One current area of focus is research on advanced manufacturing processes and materials. Awards in this area have the potential to spur new and much-needed capabilities in the manufacturing sector – whether in production techniques, material sciences or cutting edge design options. The Obama Administration is committed to the success of the program and the catalyzing of innovation.

Pursue structural reforms that support innovation and production. Various structural and regulatory reforms have the potential to support innovation and increase production. The Obama Administration will explore a range of such reforms, including:

- Public-private partnerships that can generate mutually beneficial arrangements between major businesses and localities. Manufacturing Infrastructure and other similar projects are good examples of such partnerships.
- Use of the federal government’s coordinating abilities to overcome information problems and match innovators and markets. A manufacturer’s competitiveness is often dependent on the speed with which the company finds new markets and adopts new technologies, innovative product concepts, and improved operational and management practices. There are often information failures in the market that prevent some learning and exchange of ideas that would help manufacturers grow. The government can help overcome such information failures and help to spread new and innovative business practices.

Protect intellectual property rights. Intellectual property is crucial for developing new technologies. We must ensure that intellectual property is protected in foreign markets and promote greater cooperation on international standards that allow our technologies to compete everywhere. The Administration is committed to ensuring that the United States Patent and Trademark Office has the resources, authority and flexibility to administer the patent system effectively and issue high-quality patents on innovative intellectual property, while rejecting claims that do not merit patent protection.

Developing stable and efficient capital markets for business investment

In addition to stabilizing the broader financial system and providing capital assistance to small businesses and companies that compete globally, the Obama Administration is committed to expanding access to financing for manufacturers facing these tough economic conditions. Most notably, the Administration’s combination of loans, grants, and tax credits for renewable energy manufacturing will help the United States regain its position as the world leader in manufacturing clean energy equipment. Programs include:

1603 cash grants in lieu of tax credits: When the Recovery Act passed, many renewable energy projects had been halted as few developers had the ability to utilize the Production Tax Credit (PTC). Some forecasts expected the industry to shrink 25 to 50 percent. ARRA allows renewable energy

generation projects to receive a 30 percent cash grant in lieu of the Production Tax Credit. The program has already supported over 1GW of renewable energy projects.

DOE 1703 and 1705 loan guarantees: DOE loan guarantees can back financing for factories that make wind turbines, solar panels, energy efficient windows, and other clean energy equipment.

Section 48C manufacturing tax credit: The Section 48C Advanced Energy Manufacturing Tax Credit supports the building and equipping of new, expanded, or retooled factories that manufacture the products needed to power the green economy. The program covers a wide array of clean energy technologies, including renewable energy, energy efficiency, advanced transportation, and advanced transmission. The Recovery Act included \$2.3 billion in tax credits that will support over \$7.5 billion in total capital investment. This program has generated far more interest than anticipated. On December 16 2009, the Administration announced its support for expanding the program by up to \$5 billion. This funding will go to shovel ready projects that will create tens of thousands of new construction and manufacturing jobs and continue America's emerging leadership in manufacturing the clean energy products of the future.

Other Innovation-based Manufacturing Initiatives

Recognizing the need for long-term and sustained investments in R&D, President Obama has pledged to double the funding for three key science agencies: the National Science Foundation (NSF), the laboratories of the National Institute of Standards and Technology (NIST), and the Department of Energy's (DOE) Office of Science.

The Obama Administration is working to increase the impact of this investment by providing greater support for university commercialization efforts, for potentially transformative research, for multidisciplinary research, and for scientists and engineers at the beginning of their careers. For example, NSF's 2011 budget proposes to double support for the Partnerships for Innovation program, which will help universities move ideas from the lab to the marketplace.

Other innovation-based manufacturing initiatives proposed in the President's 2011 budget include:

- NSF Cyber-physical Systems: Additional \$1.6M to better integrate information technology into manufactured goods. This is part of a \$20M increase for Advanced Manufacturing to fund a new "bio-economy" effort aimed at building the basic research foundations for future biotechnology industries in areas such as "green" chemicals and other new biologically based materials.
- NSF Nano Manufacturing: Additional \$10M targeted at NSF grant support for nano-manufacturing and the application of nano-scale science and engineering to traditional manufacturing industries.
- Additional funding was recommended for the Commerce department to support NIST's Technology Innovation Program (TIP) and Hollings Manufacturing Extension Partnership (MEP) program.

Recovery Act

I would like to take this opportunity to note the impact the Recovery Act is having on U.S.

manufacturing. American Recovery and Reinvestment Act (ARRA) investments not only lay the foundation for the clean energy economy of the future, but some could have a significant impact on the domestic manufacturing infrastructure. Examples include:

- Over \$2 billion to support domestic manufacturing of advanced batteries and other components of Advanced Vehicles and Fuels Technologies.
- \$4.5 billion investment for Smart Grid technologies will help expand our manufacturing base of companies that can produce the smart meters, smart appliances, synchrophasors, smart transformers and other components for smart grid systems in the United States and around the world - representing a significant and growing export opportunity for our country and new jobs for American workers.
- \$2.3 billion in 48C Advanced Energy Manufacturing tax credits that will partner with private investment to increase our capacity to manufacture wind turbines, solar panels, electric vehicles, and other clean energy components domestically.

Computational Modeling and Simulation

I would also like to highlight our efforts in a specific area of advanced manufacturing: computational modeling and simulation. Quality, cost, flexibility and time to market are key elements of manufacturing competitiveness. It has been widely recognized that Computational Modeling and Simulation tools could significantly reduce the need for physical prototype testing thereby reducing the product development time, costs and improve quality. These tools also accelerate discovery and innovation thereby allowing designers, manufacturers, and regulators to make better decisions in shorter time frames. However, modeling and simulation tools are not exploited as routinely as they should in industrial product or process design, innovation and manufacturing, and the technology has not penetrated far beyond the top of the supply chain. The reasons behind limited adoption of these tools include lack of understanding of value proposition by SMEs, affordability of software and hardware, availability of technical experts, verification, standards, certification and reliability of software tools including their ability to capture realism of the physical world. As the Co-chair of the National Science and Technology Council's (NSTC) Committee on Technology, I recently stood up a Fast Track interagency subcommittee to identify gaps and challenges in computational modeling and simulation and make recommendations.

The Way Forward

Thanks to President Obama's leadership, the Administration has taken large strides in developing and implementing an ambitious innovation agenda. The President has appointed Mr. Ron Bloom as the Senior Counselor for Manufacturing Policy within the White House, signaling the high priority placed on manufacturing and leadership needed to develop a coherent, overarching advanced manufacturing strategy and to oversee its implementation across the Federal Government.

For the United States to maintain leadership in advanced manufacturing, the Federal government needs an ability to formulate policies and develop programs across the Federal Government in a coherent effective manner. Established mechanisms in the Executive Branch, such as the National Science and Technology Council (NSTC), can provide coordination and even elements of overall strategy. With

current Federal manufacturing R&D programs highly diffused and totaling less than \$500 million, there appears to be a need for focused and concerted Federal support to providing such investments in manufacturing R&D to fully materialize the benefits of emerging technologies. OSTP has been actively convening multiple interagency meetings to discuss gaps in Federal programs in advanced manufacturing and opportunities to strengthen existing industries and creation of new industries. OSTP is fully committed to continue such activities in support of the President's Innovation Strategy and the principles outlined in the Administration's Framework for Revitalizing American Manufacturing.

The Administration is working with a wide range of stakeholders to identify the most promising ideas for implementing and further refining the Administration's innovation strategy. There are active inter-agency working groups on issues such as prizes and challenges, regional innovation clusters, research commercialization, spectrum reform, broadband, open government, and standards. The National Science and Technology Council is leading multi-agency research initiatives in dozens of critical areas such as aeronautics, green buildings, nanotechnology, robotics, and information technology.

Through the President's Council of Advisors on Science and Technology (PCAST), the Administration is able to gain invaluable insight from the Nation's leading scientists, engineers and innovators on Advanced Manufacturing. The PCAST subcommittee on Advanced Manufacturing plans to release a report in the coming months outlining their findings and recommendations.

In order to revitalize our manufacturing sector we must continue our focus on building blocks of innovation – basic research, translational research, public-private partnerships, tools that enhance manufacturing competitiveness and productivity.

The United States is still the land of the future. We have held that honor since this continent was discovered by a daring act of exploration more than 500 years ago. We have earned it anew with each passing generation because America's scientists, entrepreneurs and public officials have understood the importance of applying the power of American curiosity and ingenuity to the biggest economic and societal challenges.

I welcome any questions that the Committee may have.

Mr. RUSH. Mr. Paul, you are recognized for 5 minutes.

TESTIMONY OF SCOTT N. PAUL

Mr. PAUL. Thank you very much, Mr. Chairman. I want to thank you, Mr. Whitfield, members of the subcommittee, and Mr. Lipinski for inviting us here today to testify. We want to comment Representative Lipinski for his authorship of the National Manufacturing Strategy Act, and assuming that you can agree on some improvements, we urge you to pass it into law. There is no question that America needs a manufacturing strategy to revitalize this sector as there is simply no department of manufacturing, and I am not arguing that there should be, but it makes perfect sense to harness the best minds as well as to coordinate among the appropriate agencies to focus on a government wide strategy to advance manufacturing in both employment and output terms. Like most issues that come before you every day, there is no simple solution to strengthen the manufacturing sector but passage of this legislation would compliment ongoing and anticipated efforts that I will detail later in my testimony.

Now the idea of a manufacturing strategy is hardly a radical concept. Alexander Hamilton constructed America's first manufacturing strategy in 1791. Setbacks during the War of 1812 due to a lack of domestic capacity to build naval vessels and military equipment cemented the determination of the federal government to grow manufacturing, a policy that continued until the end of World War II. Globalization and economic approaches such as a strong dollar policy favoring domestic consumption have helped to steadily erode manufacturing as a percentage of gross domestic product, private sector employment and by other key measures.

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

Most recently, and has been mentioned by several members here, the Obama Administration released its framework for revitalizing American manufacturing. The document recognizes the importance of manufacturing to America's economic future and talks about a number of important issues, including access to credit, skills and training, creating new markets for manufacturing, and improving the efficiency of the industry. But it is not a substitute for a strategic plan and for harnessing the best minds within the federal government to focus on this issue day after day. You have pointed out in excellent briefing materials the significance of manufacturing, and I am not going to repeat those statistics and the crisis

that it faces, but I do want to mention and add a few new thoughts to this.

The crisis we have seen in manufacturing has really been turbo charged over the last decade, and I attribute it to 2 fundamental things. First is the emergence of China as a key competitor and the way that we approach that by passing PNTR in 2000, and, second, and most acutely, is the collapse of the auto and housing markets that we have seen recently. We have seen problems with manufacturing in the Bush administration. While the U.S. economy expanded 17 percent from 2002 to 2007, manufacturing expanded only by 5 percent. We have also seen 50,000 manufacturing facilities close down over the last decade, which is an extraordinary rate, and according to Richard McCormick, who is the editor of Manufacturing News, there are only a thousand facilities in the United States that employed more than a thousand people now. Consider that in our manufacturing history.

The trade deficit in manufactured goods has quadrupled since 1997, and we already have significant and growing trade deficits in both high technology and green technology products. Now there are a lot of issues on which we could focus, and we submitted a letter today that I am happy to submit to the record to the Speaker of the House detailing a number of steps that we think would be advantageous to supporting manufacturing that would compliment some of the ideas that had been suggested by the National Association for Manufacturing. I also would submit to you that we issued a book and gave it to every member of Congress last July called Manufacturing, a Better Future for America, which was written by a number of key industry experts, including a former Reagan administration official with more than 300 pages of suggestions on how to improve the manufacturing sector. I commend that to your attention as well.

I want to close by saying that this is an issue, if for no other reason, for not economic reason or policy reason, is simply a matter of what your constituents want. We commissioned a poll, which was conducted recently, on a bipartisan basis by Mark Mellman and Whit Ayres. It found overwhelming support for the idea of a National Manufacturing Strategy. Seventy-eight percent of the American people supported it, want to help manufacturing. The support is broad and deep. It is Tea Party members. It is union households. It is in the south. It is the Midwest. So we commend that to your attention as well. We thank you for having the hearing today.

[The prepared statement of Mr. Paul follows:]

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

Mr. Chairman and members of the Subcommittee, I want to thank you for taking the time to examine the National Manufacturing Strategy Act and for inviting me to testify on behalf of the Alliance for American Manufacturing.

First, I would like to introduce the Alliance for American Manufacturing to you. We are a partnership formed in 2007 by some of America’s leading manufacturers and America’s largest industrial union—the United Steelworkers—to work in a cooperative, non-partisan way for one goal: strengthening American manufacturing and therefore our nation’s economic and national security. Our mission is to provide policymakers like you with useful analysis of the issues, as well as innovative policy ideas to move us toward effective solutions.

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

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

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

The idea of a manufacturing strategy is also not a partisan one. President Reagan—spurred on by a Democratic Congress—adopted a flurry of measures to counter a grossly imbalanced trade relationship with Europe and Japan in the 1980s. The Plaza Accords, which raised the value of currencies in Japan and Europe relative to the dollar in a managed way, had a positive effect in lowering our trade deficit. Key government investments in the semiconductor industry and other technologies spurred their development and commercialization. President Reagan signed into law enhanced Buy America requirements for certain infrastructure projects to boost domestic employment.

His Administration implemented the Market Oriented Sector Specific – or MOSS talks – with Japan that focused on market access with measurable results.

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

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

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

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

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

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

Contrary to a widely held belief, manufacturing employment actually held steady from 1982 to 1999, hovering around 17.2 million jobs, with ebbs and flows in downturns and recoveries. There were a number of reasons for this stability, including more aggressive

trade enforcement and currency policies in the 1980s and more domestic investment in the 1990s. But manufacturing employment has dropped precipitously since China entered the World Trade Organization in 2001 and our bilateral trade deficit has exploded. We have concluded that—outside of the collapse of the auto and housing markets in 2008—the single most detrimental factor to manufacturing employment in the United States has been the expansion of our one-sided trade relationship with China. China is certainly not our only competitor engaged in unfair, predatory and protectionist policies, but the scale of their activities swamps that of many of our other trading partners and is in need of immediate attention.

Other explanations for manufacturing's decline, while conforming to orthodox economic views, are not satisfying. The decline of manufacturing employment and manufacturing's share of GDP is not inevitable, desirable, nor can it be explained solely through theories of churning capitalism, advances in productivity and technology, compensation costs or inefficiency. For instance, Germany's global shares of manufacturing output and exports have held steady over the past decade, while America's have declined and China's have risen sharply. Yet, Germany is not a low-cost nation for manufacturing. But, Germany has an integrated strategy for boosting manufacturing, focusing on skills, technology, investment, labor-business-government collaboration, and aggressive trade policies, which allow it to successfully compete.

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

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

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

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

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

Support for a national manufacturing strategy is growing among serious economists, business leaders, as well as labor leaders. Andy Grove, the former CEO of Intel, wrote a BusinessWeek cover story on this very topic in its July 5 issue. Leaders of Fortune 500 companies such as Bill Ford of Ford Motor Company and Dan DiMicco of Nucor have argued that manufacturing should be boosted to 20 percent of our Gross Domestic Product. Jeff Immelt of General Electric has acknowledged that his company—and America—have simply outsourced too much production and should refocus on making things here again.

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

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

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

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

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

Congress must act to address currency manipulation by China and other countries. Not only must it do this on a country-to-country basis, but must also ensure that industries be able to utilize our trade laws to respond to currency manipulation when our government refuses to act. In addition, efforts like China's indigenous innovation effort must be aggressively confronted. Enforcing our laws more aggressively is key to not only restoring economic growth and our manufacturing sector, but also to restoration of public confidence and trust in their elected leaders that when they work hard and play by the rules, that their government will stand up for their rights and interests.

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

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

Mr. RUSH. The chair recognizes Mr. Gordon for 5 minutes.

TESTIMONY OF MARK A GORDON

Mr. GORDON. Good afternoon. Chairman Rush, and members of the committee, I am Mark Gordon, Director of Defense Programs at National Center for Advanced Technologies, and a member of the Executive Committee of the Manufacturing Division at the National Defense Industrial Association. On behalf of our 1,700 corporate members, including 83,000 individual members, I am pleased to appear before the House Subcommittee on Commerce, Trade, and Consumer Protection to emphasize the importance of manufacturing and to support H.R. 4692 in calling for a National Manufacturing Strategy. Based upon your request to discuss topics of import in consideration of the Bill, I would like to address three questions, is manufacturing important to our country, do we need a National Manufacturing Strategy at all, and are there modifications to the bill which may strengthen the process and the resultant strategy.

First, we have already heard a lot of numbers about the importance of manufacturing. I won't add to those, but I will say that one of the critical elements about manufacturing is that it creates wealth within the U.S. by producing something of value from common components or materials. This is critically important in comparison to wealth transfer or other service sectors. The jobs produced by the manufacturing activities are generally high paying and represent an entree into the middle class for a number, a large portion, of the workforce. Also, manufacturing multiplies each dollar spent in that sector into an additional \$1.37 in economic activity, higher than any other sector.

In terms of national security, we depend heavily upon our domestic manufacturing capabilities. The Defense Department relies upon domestic manufacturing to equip our war fighters, and our national security is supported by economic strength and viability. So, obviously, we need active support from Congress to support manufacturing. Do we need a manufacturing strategy? Absolutely. There are many groups from government, for industry, and academia which are chartered to further domestic manufacturing agenda. They are not sufficient or strategic enough to deliver the goals of H.R. 4692, a national strategy for manufacturing in the U.S. Government bodies continue to work on policy technology and other concerns but there are the implementation path of a strategy and not setting that strategy. Industry groups like NGIA and a host of others propose investment changes, policies, incentives, and a level playing field which are vital issues but they do not represent that comprehensive strategy, and academia pursues activities that furthers the body of knowledge in manufacturing but does not have that strategic division.

We need to have these existing groups work together, and I believe that that over arching strategy from this bill will fit that need. A Quadrennial Manufacturing Strategy, as proposed by 4692, would also provide a stable, well-planned national vision for aligning public-private academia investment opportunities at the highest level. And we have heard about the dangers of uncertainty. I believe that private industry responds to certainty and stability

with investment, and so the existence of a strategy could lower a greater corporate investment domestically. There are also structural problems that are talked about in papers by George Tasse, a senior economist at the National Institute of Standards and Technology, that talks about the flaws in classic neoclassical economic theory to the high tech industry where the Law of Comparable Advantage and reactions to that law do not hold up in terms of the data that we are seeing in our last three recessions.

In addition, in a March, 2010 letter to Secretary Locke, the Department of Commerce's Manufacturing Council also addressed this structural change in our economy which has led to a high degree of uncertainty and will require a comprehensive set of solutions to resolve. Finally, I note that the President has recently set an ambitious goal of increasing the exports of the U.S. by three times. Considering this goal, especially in the context of manufacturing being the largest export sector, it is quite obviously that a manufacturing strategy would be a major enabler of this effort. Modifications to the bill would strengthen the process and the strategy, I believe. While the overall content and the intention of the bill is excellent, there are some changes during the markup of 4692 that can strengthen the purpose, process, and eventual strategy.

First and foremost, its relationship between the President, the task force, and advisory bodies. I would propose that the Manufacturing Strategy Task Force make recommendations to the President of a draft strategy instead of simply recommendations based upon analysis. Additionally, I would further suggest that the listing of Subsections 1 to 23 of analysis in Section 3b be changed to allow the President and the task force the latitude to define and prioritize the scope of that analysis without requiring duplicate and detailed analysis of all 23 areas. And, finally, the modification that may be necessary is a schedule taking into account the initial stand up period of the President's cabinet and advisors. NDIA and its members strongly endorse H.R. 4692 requiring the President to conduct a Quadrennial Manufacturing Strategy. I look forward to your questions.

[The prepared statement of Mr. Gordon follows:]

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Testimony

Of

Mark A Gordon

Member of the Manufacturing Division of the

National Defense Industrial Association

House Committee on Energy and Commerce,

Subcommittee on Commerce, Trade, and Consumer Protection

July 14, 2010

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

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

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

Is Manufacturing important to our country?

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

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

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

Do we need a National Manufacturing Strategy?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Mr. RUSH. The chair now recognizes Mr. Hickey for 5 minutes for purposes of an opening statement.

TESTIMONY OF WILLIAM M. HICKEY, JR.

Mr. HICKEY. Thank you, Congressman. Thank you for the kind words before. I want to thank Mr. Whitfield for his comments about manufacturing. I am Bill Hickey, President of Lapham-Hickey Steel Corporation of Chicago. Lapham-Hickey Steel is a family owned and managed steel service center founded in Chicago in 1926. Today we have several locations in the States of Illinois, Wisconsin, Ohio, Minnesota, Connecticut, and Alabama. We currently employ about 550 people. The steel service center industry is at the heart of the manufacturing economy of the United States. We, as an industry and a company, purchase large quantities of steel products from producing mills and either distribute those products in smaller quantities or process that steel through specialized machinery to allow our customers lower cost in the manufacturing of their products.

Our company processes steel and sells that processed product to customers across North America. We have thousands of customers in transportation, construction, metal fabrication, HVAC, machine tool, power generation, wind energy, just to name a few of the industries in which our customers produce manufactured products. We are also in a very strategic position as a company to view the full spectrum of the manufacturing economy in the United States. I say this since our major suppliers are the steel companies that manufacture steel in the United States and the vast majority of our customers are consuming the products we sell to them in the United States.

Now that I have given you some background on my 35 years of working in the U.S. economy and what economic function the firm I lead performs, I have to tell the subcommittee that I believe we, as a country, have to grow, mine, and manufacture for our economy to create the wealth needed by our citizens and our government. We, as a country, have experienced much economic and social pain in the last several years. I believe this economic pain was caused by the massive imbalances that have occurred in our economy. Part of these economic imbalances have been the large scale destruction of the manufacturing economy in the United States in the past 10 years. Here are some of the facts which we have already mentioned, but these are the facts that I live—these are our customers that have been devastated over the last 19 years. The U.S. manufacturing workforce has declined from 17,250,000 in 2000 to 11,549,000 in 2010. This is a reduction of 1/3 of the manufacturing employment in 10 years. What happened? Why do we have this huge drop in jobs in just 10 years?

During the same period the United States had 42,400 factories that closed. This included 36 percent of all the factories that employed more than 1,000 workers. And I can tell you when these large factories close the communities where they are located are devastated. Why are we losing these factories? I have seen these factories close in Ohio, Indiana, Pennsylvania, Michigan, Minnesota, Illinois, across the Midwest. The case for H.R. 4692. These two facts about plant closings and having 1/3 of manufacturing jobs

or almost 6 million disappear in just 10 years, in my judgment, is justification to enact H.R. 4692. How do we create sustainable economic growth and increase employment? This is the first point in the policies that this Congress should promote and will be required once this Act is passed into law.

A focus of this Act that I believe is needed today is the Manufacturing Strategy Task Force. I am a member of the Department of Commerce Industry Trade Advisory Committee-12. This committee advises the Department of Commerce and the USTR on trade policy. Even with this insight, I find it very difficult at times to understand what our Nation's strategy is on manufacturing. I actually think the strategy today is policy of reacting to a crisis instead of planning for the future. A recent example of this lack of focus on national economic goals was the Import-Export Bank refusing to finance mining equipment for Bucyrus International, a Wisconsin based company, for reasons that seem to be the whim of the appointed official. If we had a National Manufacturing Strategy in place in the last 10 years, would we have lost or greatly diminished our manufacturing capacity in television, auto parts, bicycles, cell phones, furniture, toys, computers, textiles, and a large cross section of industries that I won't have time to go into to talk about.

I keep wondering if the theory about outsourcing our manufacturing and having our economy become based on financial services has finally shown the imbalances that were created. With the National Manufacturing Strategy, we, as a country, will now have the opportunity to have a real debate on how we help Main Street provide jobs to our citizens versus having Wall Street bailed out by our taxpayers. I want to thank Congressman Dan Lipinski for his leadership. This National Manufacturing Strategy Act is put a small sample of the commitment Congressman Lipinski has to the Third District of Illinois and the American people. Thank you, Congressman.

[The prepared statement of Mr. Hickey follows:]

TESTIMONY OF
WILLIAM M. HICKEY, JR.
PRESIDENT
LAPHAM-HICKEY STEEL CORP.
CHICAGO, IL

**ON H.R. 4692 "NATIONAL MANUFACTURING
STRATEGY ACT"**

BEFORE

U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON ENERGY AND COMMERCE
SUBCOMMITTEE ON COMMERCE, TRADE
AND CONSUMER PROTECTION

WEDNESDAY, JULY 14, 2010
2:00 P.M.
2322 RAYBURN HOUSE OFFICE BUILDING

Good afternoon.

I want to thank Congressman Rush for the invitation to testify on H.R. 4692.

I am Bill Hickey, President of Lapham-Hickey Steel Corp. of Chicago. Lapham-Hickey Steel is a family owned and managed steel service center founded in Chicago in 1926. Today we have seven locations in the states of Illinois, Wisconsin, Ohio, Minnesota, Connecticut, and Alabama. We currently employ approximately 550 people.

The steel service center industry is at the heart of the manufacturing economy of the United States. We, as an industry and a company, purchase large quantities of steel products from producing mills and either distribute that product in smaller quantities or process that steel through specialized machinery to allow our customers lower costs in the manufacturing of their product.

Our company processes steel and sells that processed product to customers across North America. We have thousands of customers in transportation, construction, metal fabrication, HVAC, machine tool, power generation, wind energy, just to name a few of the industries in which our customers produce manufactured products.

We are also in a very strategic position as a company to view the full spectrum of the manufacturing economy in the United States. I say this

since our major suppliers are steel companies that manufacture steel in the United States and the vast majority of our customers are consuming the products we sell to them in the United States.

Now that I have given you some background on my 35 years of working in the U.S. economy and what economic function the firm I lead performs. I have to tell this subcommittee that I believe we, as a country, have to grow, mine, and manufacture for our economy to create the wealth needed by our citizens and government.

We, as a country, have experienced much economic and social pain in the last several years. I believe this economic pain was caused by the massive imbalances that have occurred in our economy. Part of these economic imbalances has been the large scale destruction of the manufacturing economy in the United States in the past 10 years.

Here are some of the facts on what has occurred in the manufacturing economy in the last decade.

The U.S. manufacturing workforce has declined from 17,250,000 in 2000 to 11,549,000 in January of 2010. This is a reduction of 1/3 of our manufacturing employment in 10 years! What happened? Why did we have this huge employment reduction in just 10 years?

During this same period the United States had 42,400 factories that closed. This included 36% of all factories that employed more than 1,000

workers. I can tell you that when these large factories close the communities where they are located are devastated. Why are we losing all these factories?

The Case for H.R. 4692

These two facts about plant closings and having 1/3 of manufacturing jobs or almost 6 million disappear in just 10 years, in my judgment, is justification to enact H.R. 4692.

How do we create sustainable economic growth and increase employment? This is the first point in the policies that this Congress should promote and will be required once this Act is passed into Law.

A focus of this Act, that I believe is needed today, is the manufacturing strategy task force. I am a member of the Department of Commerce Industry Trade Advisory Committee-12. This committee advises the Department of Commerce and the USTR on trade policy. Even with this insight, I find it very difficult at times, to understand what our nation's strategy is on manufacturing. I actually think the strategy today is a policy of reacting to a crisis instead of planning for the future. A recent example of this lack of focus on national economic goals was the Import-Export Bank refusing to finance mining equipment for Bucyrus International, a Wisconsin based company, for reasons that seem to be the whim of the appointed official.

If we had had a National Manufacturing Strategy in place the last 10 years would we have lost or greatly diminished our manufacturing capacity in television, auto parts, bicycles, cell phones, furniture, toys, computers, textiles, and a large cross section of industries I will not list?

I keep wondering if the theory about outsourcing our manufacturing and having our economy become based on financial services has finally shown the imbalances that were created. With the National Manufacturing Strategy we, as a country, will now have the opportunity to have a real debate on how to help Main Street provide jobs to our citizens versus having Wall Street bailed out by our taxpayers.

I want to thank Congressman Dan Lipinski for his leadership. This National Manufacturing Strategy Act is but a small sample of the commitment Congressman Lipinski has to the Third District of Illinois and the American people.

I thank you for your time and would welcome questions.

Sincerely,

Bill Hickey

Mr. RUSH. The chair now recognizes Mr. Herrnstadt for 5 minutes.

TESTIMONY OF OWEN E. HERRNSTADT

Mr. HERRNSTADT. Thank you, Mr. Chair, and members of the committee for the invitation to be here today, and thank you, Congressman Lipinski, for introducing the bill which is the subject of today's hearing. IAM members, that is, the International Association of Machinists & Aerospace Workers members, work in a variety of manufacturing industries, including aerospace, electronics, defense, shipbuilding, transportation, and woodworking. We believe that a strong, domestic industrial base is one of the essential elements needed to restore our economy and build a prosperous and sustainable future. As has already been said, U.S. manufacturing serves as the bedrock for our Nation's economy. That said, it is no secret that U.S. workers and their communities are in a crisis. Over 8-1/2 million jobs have been lost since December, 2007, and the unemployment rate remains exceedingly high. Despite the importance of manufacturing to our Nation's economy and our defense capacity millions of U.S. manufacturing workers have lost their jobs contributing to our high unemployment. As has also been said and has been pointed out in the fact sheet provided by the committee nearly 6 million manufacturing jobs have been lost since 1999.

Some industries that were once great contributors to our economy like auto, shipbuilding, and machine tools are barely shadows of what they once were. Jobs in other leading edge industries like aerospace are being outsourced to other countries. Renewable energy products that are considered to represent the future of manufacturing here at home also are to a great extent being manufactured abroad. While there are many reasons for the decline in manufacturing one of the fundamental reasons is that the U.S. does not have a National Manufacturing Strategy and has not established a framework for creating one. A National Manufacturing Strategy could establish general and specific programs for coordinating policies as well, policies related to tax incentives that reward corporations to move jobs overseas, research and development, trade, employment, currency evaluation, export initiatives, domestic procurement, and many, many others.

Other countries have embraced manufacturing strategies as has also been discussed. A few years ago the European commission presented its new industrial policy noting "A flourishing manufacturing industry is key to fully exploiting the European Union's potential for growth and sustaining its economic and technological leadership." Separately, over 20 European countries have adopted sophisticated offset policies. Offsets occur when one country demands a transfer of technology and/or production in return for a sale. Countries like Germany have sophisticated manufacturing policies that have helped the country weather the current economic crisis and, oh, yes, there is China who has also engaged in very comprehensive strategic and targeted industrial and manufacturing policies which are credited with that country's economic growth far too often at the expense of our own manufacturing industry and far too often at the expense of our U.S. workers.

We simply can't be complacent with the hope that manufacturing is cyclical and will recover with the passage of time. The changes we are witnessing in H.R. 4692, the National Manufacturing Strategy Act of 2010, requires the President to prepare a Quadrennial National Manufacturing Strategy, and it certainly represents a much-needed and key step forward in developing a response to the current economic crisis and the current state of manufacturing today. We have submitted, of course, some recommendations to strengthen that bill, and we have also submitted recommendations that constitute more steps to be taken. These steps must be urgently taken given the crisis that manufacturing workers are certainly facing today as particularly have been pointed out by my colleague on this panel, Mr. Hickey. In addition to that, we also recommend very simple fixes such as requiring Congress and the Administration to adopt simple common sense policies that link certain government activities immediately to their effect or impact on U.S. employment making sure that domestic sourcing requirements are closely examined to make certain that they do indeed result in the most number of domestic jobs being created and supported as possible.

Manufacturing workers are in a crisis. They have witnessed millions of their jobs disappear over the past few years. Their pain is real. As their desperation increases and their hopes fade, it is critical that we develop a comprehensive National Manufacturing Strategy that will in reality make a difference in their lives and in doing so ensure a vibrant and sustainable economy. Thank you for the opportunity to share our views with you today, and I look forward to your questions.

[The prepared statement of Mr. Herrstadt follows:]

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

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

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

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

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

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

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

² *Id.*

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

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

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

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

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

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

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

⁵ Communication from the Commission, 10/5/2005;

http://europa.eu/legislation_summaries/enterprise/industry/n26109_en.htm (extracted 7/12/2010).

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

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

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

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

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

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

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

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

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

⁹ See, Owen Herrnstadt, *Green jobs, with strings attached*, Economic Policy Institute, 12/2/2009.

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

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

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

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

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

¹⁰ Id.

¹¹ Id.

Mr. RUSH. Mr. Hassett is recognized for 5 minutes.

TESTIMONY OF KEVIN A. HASSETT

Mr. HASSETT. Thank you, Chairman Rush, and Ranking Member Whitfield. In my view the economic science supporting this Act is essentially nonexistent. Accordingly, passing it into law would be a policy error. Whether the policy error is major or minor would depend on whether the Strategy Task Force and Strategy Board are, like most such entities in Washington, irrelevant. If they are not, then the Act could significantly harm the business environment in the United States. In the front of my testimony, I talk about the decline in manufacturing and wonder whether it isn't parallel to a decline in agriculture that we have seen that stretches even further back and is just a natural tendency for the economies to experience as they mature. Now I don't know what the right share of GDP for manufacturing is, and I would submit that the members of the committee don't either, and so pursuing a strategy that focuses specifically on manufacturing as opposed to trying to make the overall economy healthy would seem to me to be in error.

Ever since the seminal work of Diamond and Mirrlees in 1971, economists have known that optimal economic policy should not tax intermediate goods or distort productive efficiency. This means that the allocation of capital that emerges in response to market forces should not be disrupted by special treatment for some inputs but not others. The Diamond and Mirrlees result indicates that an optimal policy will not favor production in one area at the expense of another. The Act we are discussing today appears to insist that manufacturing receive special treatment that advantages manufacturing relative to everything else. Such a focus of policy is not defensible on economic grounds. If business activity is viewed by Congress to be disappointingly low, and with today's retail sales information I think it is even worse than we thought, then it is wholly inappropriate to consider measures that would stimulate it across the board.

But when politicians pick winners and losers, they interfere in the natural economic process and inevitably cause harm. In my many years in Washington, I have acquired the opinion that we tend to appoint task forces and commissions when we know what the right thing to do is but are unwilling to do it. Commissions and task forces make for nice speechifying but almost always have a negative policy impact because they allow elected officials to appear to be addressing key problems without actually doing anything. Business activity in our Nation is indisputably disappointing at the present time. It is urgent that policy changes be enacted before it is too late, but we do not need a commission or task force to study the issue. We know why the business climate in the United States is so terrible.

The biggest problem is our corporate tax system. Figure 3 in my testimony plots the U.S. corporate tax rate from 1981 to 2010 and compares it to the average tax rate of our OECD partners. Currently, the U.S. tax rate is 35 percent and the average for the OECD is 23.9 percent. I should note that this chart understates our disadvantage because it excludes state and local taxation. So if you are wondering why the U.S. is hemorrhaging business, why people

are locating plants overseas, that corporate tax is a big part of the story. I would remind the members of the committee that many of these plants that are being located overseas are heavily capital intensive. It is not differences only in labor costs that is driving this force.

Now some notes on the specific legislation. On the abstract, it is impossible to oppose having a strategy or performing a study. I am concerned about what that strategy might entail. The development of a strategy and performance of the task force could well be beneficial, but the bill as written looks to be an invitation for destructive meddling. In particular, the biggest cause for concern is the possibility that the Act be used as an excuse to increase protectionism. The language of the Act seems to invite anti-trade actions and to glorify central planning. Many of the catch words used by protectionists are present in the wording of the bill, including charges to monitor specific industries that face "critical" challenges and the "identification of emerging or evolving markets, technologies and products that the Nation's manufacturers could compete for." Those were quotes.

Is the government to pick winners and losers within the manufacturing sector? While it is clear that at some point a manufacturing capability has national defense implications, even this angle is subject to abuse by protectionists. It would be easy to envision that a strategy to enhance manufacturing in the U.S. might bear a striking resemblance to the policy sought by Bastiat's candle-makers, who argued that the government should pass a law requiring individuals to keep their window shades down during the day because of unfair competition from the sun. Such a policy would, of course, increase the demand for candles, but would it make us better off? The pernicious government meddling that this Act may invite is perhaps best illustrated by the emphasis that policies should promote sustainable growth. As Nobel winning economist Robert Solow has written, the notion of sustainability is extraordinarily elusive.

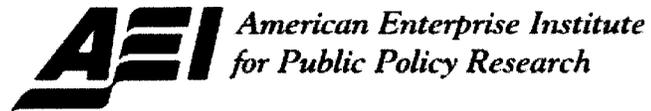
I am now quoting. "It is very hard to be against sustainability," Solow wrote, "the less you know about it, the better it sounds." To carry sustainability out literally, Solow writes, would be to "make no use of mineral resources; it would mean to do no permanent construction or semi-permanent construction; build no roads, build no dams, build no piers." While the notion of leaving the world the same way we leave a campsite, without a trace of our presence, seems romantically attractive, open quote again from Solow, "I doubt that I would feel myself better off if I had found the world exactly as the Iroquois left it." Solow struggles in his piece, and develops a definition of sustainability that is, to an economist, quite sensible, but it seems quite far removed from the nebulous notion that those who invoke the word have in mind. But the key point I raise is that the Act seems to place a high priority on creating a strategy for sustainable growth, even though, again quoting Solow, "sustainability is an essentially vague concept, and it would be wrong to think of it as being precise, or even capable of being made precise. It is therefore probably not in any clear way an exact guide to policy."

Now it is hard to conceive of what good would be accomplished by the elevation of this notion to a place at the center of U.S. manufacturing policy, but easy to conceive of bads that might follow.

Mr. RUSH. Mr. Hassett, would you bring your——

Mr. HASSETT. Yes, I have got one sentence left, sir. The clock is so far away, I can't quite see it. On balance, the same can be said for the entire Act. Thank you for your attention.

[The prepared statement of Mr. Hassett follows:]



Testimony before the House Committee on Energy and Commerce Subcommittee on
Commerce, Trade, and Consumer Protection regarding the National Manufacturing
Strategy Act

Kevin A. Hassett

Director of Economic Policy Studies

American Enterprise Institute

July 14, 2010

The views expressed in this testimony are those of the author alone and do not necessarily represent the views of the American Enterprise Institute.

Chairman Rush, Ranking Member Whitfield, and members of the subcommittee, it is an honor to appear before you to discuss the National Manufacturing Strategy Act.

In my view, the economic science supporting this Act is essentially nonexistent. Accordingly, passing it into law would be a policy error. Whether the policy error is major or minor would depend on whether the Strategy Task Force and Strategy Board are, like most such entities in Washington, irrelevant. If they are not, then the Act could significantly harm the business environment in the United States.

This testimony will discuss why I have reached this conclusion. I will begin by discussing historic trends in manufacturing in the United States. I will then discuss the economic forces, including current policy, that are driving these trends. Finally I will relate these forces to the Act, and indicate why it is misguided.

The Decline in Manufacturing

The decline of the U.S. manufacturing sector has been well documented. Figure 1 plots the share of manufacturing in total GDP for the U.S. from 1947 through 2009. As can be seen in the chart, manufacturing's share has dropped precipitously, from about 28 percent of GDP to about 11 percent of GDP.

Looking at the aggregate picture, this decline is not necessarily a cause for concern. Over the past few decades, our economy has transformed dramatically, and the importance of innovation and new ideas has increased sharply.

A recent study by the Federal Reserve indicates just how rapidly.¹ The study highlights that companies invest in tangible capital, the buildings and machines of heavy industry, and intangible capital, like the many patents that go into making an iPhone possible. The study concludes that investment in intangible capital is more important today in the aggregate than investment in tangible capital.

Such an evolution is not necessarily a force that one would wish to oppose. Indeed, one might view this transformation as a natural and positive force of economic evolution. Figure 2, by way of comparison, plots the share of agriculture in GDP. It too has declined sharply over the past decades. If we ran the chart back another 50 to 100 years, then we would see that agriculture has declined from about 90 percent of GDP to where it is today, less than 1 percent of GDP.

Should Congress address the decline in agriculture with a law that mirrors the current proposal? Such a policy, clearly, would seek to reverse a trend that should not be reversed; to reverse progress itself. The same may be true for manufacturing.

¹ Corrado, et al., 2006

It is true, however, that a change in the composition of GDP that reflects progress is highly relevant for those affected. There are regions in the United States that historically have been centers of manufacturing, just as there are regions that have been centers of agriculture. As the composition of our activity changes, those regions bear a disproportionate share of the harm, and provide us with a special policy imperative to ease the pain of transition. In these instances, it may be beneficial for Congress to intercede and provide education that better prepares workers for the new economy.

The optimality of neutral economic policy

Ever since the seminal work of Diamond and Mirrlees in 1971, economists have known that optimal economic policy should not tax intermediate goods or distort productive efficiency². This means that the allocation of capital that emerges in response to market forces should not be disrupted by special treatment for some inputs but not others.

The Diamond and Mirrlees result indicates that an optimal policy will not favor production in one area at the expense of another. The Act we are discussing today appears to insist that manufacturing receive special treatment that advantages manufacturing relative to everything else. Such a focus of policy is not defensible on economic grounds.

If business activity is viewed by Congress to be disappointingly low, then it is wholly appropriate to consider measures that would stimulate it across the board. But when politicians pick winners and losers, they interfere in the natural economic process, and inevitably cause harm. If the members of this committee believe that they know better than the market where profitable opportunities lie, then they should retire from Congress, start businesses, and grow rich.

What can increase business activity in the U.S.?

In my many years in Washington, I have acquired the opinion that we tend to appoint task forces and commissions when we know what the right thing to do is, but are unwilling to do it. Commissions and task forces make for nice speechifying, but almost always have a negative policy impact because they allow elected officials to appear to be addressing key problems without actually doing anything.

Business activity in our nation is indisputably disappointing at the present time. It is urgent that policy changes be enacted before it is too late. But we do not need a commission or task force to study the issue. We know why the business climate in the United States is so terrible. The biggest problem is our corporate tax system.

² Diamond and Mirrlees, 1971.

Figure 3 plots the U.S. corporate tax rate from 1981 to 2010, and compares it to the average tax rate of our OECD trading partners. Currently, the U.S. tax rate is 35 percent, and the average for the OECD is 23.9 percent. I should note that this chart understates our disadvantage because it excludes state and local taxation.

Suppose you were a businessman planning to locate a new business in one of two U.S. states. Suppose also that one state had a corporate tax rate of 35 percent, while the other had a rate of 23.9 percent. Where would you be most likely to locate? The same force operates on an international level, and is bleeding our manufacturing sector and the rest of our economy dry.

While the manufacturing tax in the U.S. is slightly lower, it is still well above the OECD average.

If we did reduce the corporate tax, it would not favor manufacturing per se, but it would significantly improve our manufacturing climate, and benefit hard hit U.S. workers. A recent study of the impact of corporate taxes on the manufacturing sector that I coauthored with Aparna Mathur looked at the impact of corporate tax rates on the wages of blue collar workers in a sample that covered 72 countries for 22 years. We found that countries that reduce their corporate tax rate saw large and statistically significant increases in manufacturing wages.³

Even though the policy is neutral in the sense of Diamond and Mirrlees, lower taxes may disproportionately benefit manufacturing because they reduce a harm that is disproportionate. The harm may be disproportionate because goods production is easier than service provision to move to a lower tax environment.

If we want to revive manufacturing in the U.S., it is obvious what needs to be done. We need to give firms a reason to locate here, and a reason to stay here rather than relocate abroad. If we don't, we can appoint all the task forces and devise all the strategies we want, and they will not make a bit of difference.

Notes on the specific legislation

While, in the abstract, it is impossible to oppose having a strategy or performing a study, I am concerned about what that strategy might entail. The development of a strategy and performance of the Task Force could well be beneficial, but the bill as written looks to be an invitation for destructive meddling. In particular, the biggest cause for concern is the possibility that the Act be used as an excuse to increase protectionism.

The language of the Act seems to invite anti-trade actions and to glorify central planning. Many of the catch words used by protectionists are present in the wording of the bill, including charges to monitor specific industries that face

³ Hassett and Mathur, 2006.

“critical” challenges and the “identification of emerging or evolving markets, technologies and products that the Nation’s manufacturers could compete for.” Is the government to pick winners and losers within the manufacturing sector? While it is clear that at some point a manufacturing capability has national defense implications, even this angle is subject to abuse by protectionists. Are we to make sure that we have a vibrant clothing manufacturing industry for fear our troops might be forced to fight without uniforms?

It would be easy to envision that a strategy to enhance manufacturing in the U.S. might bear a striking resemblance to the policy sought by Bastiat’s candlemakers, who argued that the government should pass a law requiring individuals to keep their window shades down during the day because of the unfair competition from the sun. Such a policy would, of course, increase the demand for candles, but would it make us better off?

The pernicious government meddling that this Act may invite is perhaps best illustrated by the emphasis that policies should promote “sustainable” growth. As Nobel winning economist Robert Solow has written, the notion of sustainability is extraordinarily elusive.⁴

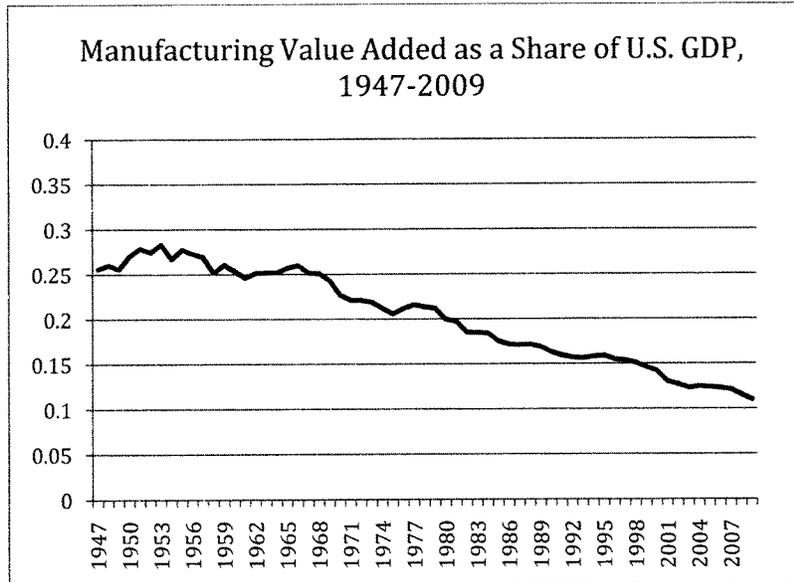
“It is very hard to be against sustainability,” Solow wrote, “the less you know about it, the better it sounds.” To carry sustainability out literally, Solow writes, would be to “make no use of mineral resources; it would mean to do no permanent construction or semi-permanent construction; build no roads; build no dams; build no piers.” While the notion of leaving the world the same way we leave a campsite, without a trace of our presence, seems romantically attractive, “I doubt,” Solow writes, “that I would feel myself better off if I had found the world exactly as the Iroquois left it.”

Solow struggles in his piece, and develops a definition of sustainability that is, to an economist, sensible, but seems quite far removed from the nebulous notion that those who invoke the word have in mind. But the key point is that the Act seems to place a high priority on creating a strategy for sustainable growth, even though, again quoting Solow, “sustainability is an essentially vague concept, and it would be wrong think of it as being precise, or even capable of being made precise. It is therefore probably not in any clear way an exact guide to policy.”

It is hard to conceive of what good would be accomplished by the elevation of this notion to a place at the center of U.S. manufacturing policy, but easy to conceive of bads that might follow. On balance, the same can be said for the entire Act.

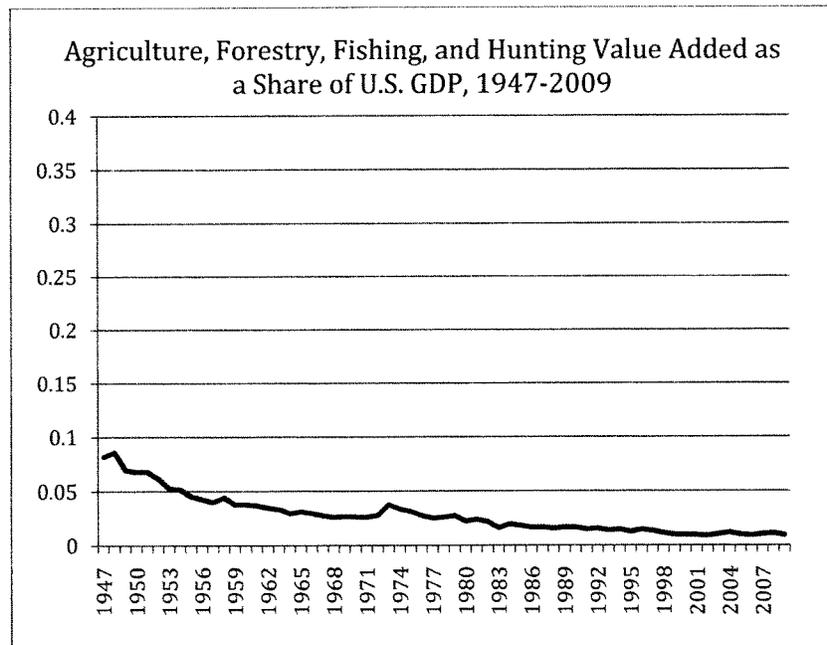
⁴ Solow, 1993.

Figure 1:



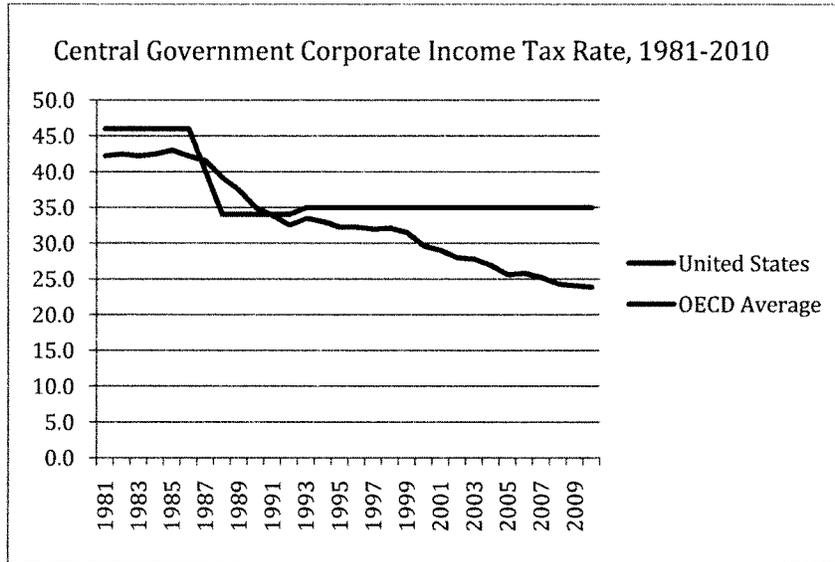
SOURCE: Bureau of Economic Analysis

Figure 2:



SOURCE: Bureau of Economic Analysis

Figure 3:



SOURCE: OECD

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Mr. RUSH. Thank you so very much. A vote now occurs on the floor so we are going to have to recess until—there are three votes. It should take us approximately a half an hour. It will only take a few minutes. Can the witnesses remain until after we reconvene for a series of questions? Thank you so very much. The hearing now stands in recess until 10 minutes after the last vote occurs.

[Recess.]

Mr. RUSH. The subcommittee will now reconvene for the purposes of asking the questions of the witnesses. I must announce to the committee and to all other who are gathered here that Mr. Chopra had to leave. He could not remain beyond the 3:30 hour so he was excused from the witness table, and any questions that the subcommittee members might want to direct to him can be forwarded to him via staff in writing. That said, the chair recognizes himself for 5 minutes for the purpose of questioning. One of the main objectives of the National Manufacturing Strategy Act is to create jobs. Mr. Hassett, some time ago, I think in March of this year, you wrote in an article that what was considered a great recession for white Americans has been actually a depression for black Americans. This is an issue that I think we all can agree on. In addition to the disproportionate impact on minority communities in hard times, we also know that there can be a disproportionate impact on jobs based on differences within the manufacturing industry.

Manufacturers may require large or small facilities that may be located in urban or suburban areas and so on and so on. Mr. Herrnstadt, do you agree that the President should develop a manufacturing strategy to include regional and industrial areas with specific employment needs?

Mr. HERRNSTADT. I think it would be helpful, but once again I think it also has to be part of a coordinated national strategy to make sure that we move forward as a country in terms of manufacturing. A variety of manufacturing industries have suffered. Aerospace, for example, over 500,000 workers have lost their jobs over the past 20 years, so, you know, there needs to be some concentration on that.

Mr. RUSH. Can you expound on your conclusions? Take about a minute and a half. I don't have but a small amount of time.

Mr. HASSETT. Thank you so much, Mr. Rush, for the question. That specific article that you mentioned, in fact, was discussed in the proposal that is sort of an unusual bipartisan one that has been put forward by myself and Dean Baker, who is a well-known economist, where we discussed job creation policy that would, we think, disproportionately benefit minorities who have been hardest hit and would be quite a bit different from the subject of this hearing. But the basic idea is that right now when you lay a worker off, then if you lay the whole worker off then they get unemployment insurance, and what we would like to do is make the unemployment insurance, economists call it like fractional, so that you could lay someone off 20 percent during a recession and then they could get 20 percent of their unemployment insurance. This would encourage employers to maybe reduce hours and wages of five guys 20 percent rather than one whole guy.

Mr. RUSH. I get the picture. Thank you so very much. OK. I come from the south, as you know, and I have seen the devastation in all communities that I represent for the most part, Inglewood, Chatham, Woodlawn, all those communities. The downturn could be traced back to when U.S. Steel closed down, and the steel industry, not your company and I congratulate you for it and I commend you for it, but most of them kind of moved offshore or moved into the sun belt without jobs, without the jobs, entry into the middle class. Can you expound on that historical picture just for a moment, if you would, and as briefly as you can? Am I correct that the—

Mr. HICKEY. We are, Congressman. As a matter of fact, my grandfather, who was one of the founders of the company I worked for was Consen steel which was another south side steel mill, and he left that company in 1926 to start the company I work for. But what has happened is that certainly the economies of scale changed. The cost of the production—the South Works, the last thing that was being produced at South Works was structural steel and they couldn't compete against the electric furnace producers that could do—or they re-melt scrap, and what has happened is that the technology evolution and steel production, when South Works closed probably 30 percent of the steel in the United States was made through electric furnace. Today it is 60 percent, so what has happened is the technology has changed and those old facilities became obsolete. Now they didn't relocate them there, and I don't know if that is an issue with the city because all those steel mills that were located in Indiana and the southern states, all of them have incentives from local states.

All of them do. I mean there is such massive incentives. Kentucky has got some—and I am not making a judgment one way or the other but that is the reality of it. You got to bring jobs back to the cities. You got to bring jobs. You got all kinds of land in the south side of Chicago that would be great for manufacturing and some of it has to do with there is pollution issues on the property, et cetera. Congressman, why they don't develop the old South Works, it is what, 200 acres sitting on Lake Michigan? It is a gorgeous piece of property.

Mr. RUSH. Thank you. I yield back the balance of my time. I recognize the ranking member, Mr. Whitfield.

Mr. WHITFIELD. Thank you. And thank you all very much for your testimony. And, Mr. Hickey, I certainly would like to congratulate you. Any family that can keep a business going for 84 years deserves a big pat on the back, so thank you. Mr. Paul, you and Mr. Gordon both in your comments made some reference that you thought this bill could be improved and some amendments could be made to it. Is that correct?

Mr. PAUL. Yes. Having worked on Capitol Hill, I know that a bill rarely ends up in the form that it started, and I think many of the suggestions that Mr. Gordon made are appropriate ones, but I will emphasize that I do think that the thrust of Mr. Lipinski's bill is sound and is very necessary in part simply because there simply is no department of manufacturing. The Department of Commerce has some responsibility for manufacturing but the Secretary of Commerce is also responsible for oceans and fish and weather and

a lot of other things, and so you need that coordinated voice to have a sound strategy.

Mr. WHITFIELD. Well, I think we all agree that this is a good piece of legislation. At least its purpose is. And although I do also agree with Mr. Hassett that I can think of a lot of industries that need some particular attention like the coal industry in Kentucky, and like agriculture and so forth. But how many of you—I know Mr. Hassett's position, but the other four—Mr. Herrnstadt, do you think this bill needs any changes or do you feel pretty good about the way it is right now?

Mr. HERRNSTADT. You know, I would associate myself with Mr. Paul's comments. I think it is an important bill, as I testified to, I think that the thrust of it is excellent and much needed. I have supplied in my written testimony, I think, two or three what I would consider to be minor recommendations I think that would strengthen it.

Mr. WHITFIELD. I know Mr. Hickey in his testimony talked about 36 percent of all factories that employed more than 1,000 employees had closed down in some period of time. Now to me 1,000 employees or more is a pretty large manufacturing facility. This legislation makes reference to small manufacturers, exclusively. I know on page 6, line 14, it talks about small manufacturers. On the Strategy Board, page 16, line 1, coming from small manufacturers. And it seems to me that if you are going to deal with manufacturing you should not be excluding a large group versus a small group. That was one comment I would make. And then second of all when I read this legislation you look at this Manufacturing Strategy Board versus the task force, the task force is all government employees. The chairman is going to be a government employee. The strategic board, 21 people, some labor union, some manufacturers, whoever, but the co-chair is going to be government employees also.

And then it says that both of them, the task force and the strategic board, will make recommendations to the President. And I sort of got the sense that the strategic board was to branch out in areas other than government which I think is good because we need testimony from people outside of government as well, but within the task force it talks about sub groupings which would also include people outside of government. And then when you consider all of the studies and all of the reports, I mean the GAO report, the second year of the President, the first year was a 4-year term. The reports by the Academy of Sciences, 14 months, 20 months, whatever, after. It just seems to me, and I may be wrong, that it would have made more sense to try to combine the strategic board and the task force to eliminate a whole layer of activities, but do any of you have any thoughts on that?

Mr. PAUL. Mr. Whitfield, I would submit that I think there is a role for both, and the reason I say that is that I know from my experience who speaks for the voice of manufacturing within a particular administration. It is difficult. We have had manufacturing czars. We have had assistant secretaries. There has been a lack of coordination. I will say frankly that at the end of the day when it comes to a strategy dealing with a topic like China, for example, that the recommendations of the State Department or the Treasury

Department often times trump the recommendations that an agency representing manufacturing might. And for that reason, I think it makes sense to have more coordination. I also see a fundamental role, and I agree with you, for outside involvement in informing the policy. And I don't pretend to be an expert on boards and commissions, so if there is a way to perfect it, I would be happy to look at that, but I do see a distinct role for both.

Mr. WHITFIELD. And you don't feel that large manufacturers should be excluded?

Mr. PAUL. I read the legislation. I don't think there is any exclusion of large manufacturers in particular.

Mr. WHITFIELD. It specifically says small manufacturers.

Mr. PAUL. Well, I think that, you know, that often makes sense because large manufacturers have a large voice, and I represent a number of large manufacturers as well. I think often times just as the Congress and the federal government does very eager to look out for the interest of small businesses, and I think that goes within the spirit of what that goal tries to accomplish.

Mr. RUSH. The gentleman's time has expired. Ms. Sutton is recognized for 5 minutes.

Ms. SUTTON. Thank you, Mr. Chairman. Thank you all for your testimony. Let me begin, I think, Mr. Hickey, it was you who spoke directly on the point of making things and the creation of value and why that is so important as opposed to, for example, other sectors perhaps we saw before the recession hit in this go round. We saw a lot of people making money by moving money around. Can you just amplify a little bit about why manufacturing is essential to creating real value?

Mr. HICKEY. Well, Congresswoman, when you hear the opportunity to take inputs and take the intellectual capital of your employees and their efforts and turn it into a value product that is a higher value than the inputs, you are always going to create wealth. Sometimes you will make mistakes and you will make stuff that people won't buy, et cetera, et cetera, but the reality is that the way to wealth is through creation of taking—you grow it, you mine it. Congressman Whitfield talked about the mining in Kentucky and the corn farmers. This is how you create wealth. And manufacturing is creating wealth. Every country in the world wants to manufacture products and ship them to the United States. The trade deficit came out yesterday. What was it, \$42 billion, 20 plus billion with the Chinese? They aren't selling us paper. The point is what we are doing is we have to have—the reason I came back in support of the Congressman's effort, under the last administration there was a study by the Department of Commerce by Grant Aldonas, who was the Undersecretary of Commerce. I don't know if anybody—I actually had an opportunity to talk to the undersecretary several times on this program, very complex, very comprehensive study. The last item was about currency manipulation by our training partners.

And I talked to at the time Undersecretary Aldonas and said you told me this was going to be highlighted. He said I lost to the Treasury. Well, if we don't have the whole government looking at why we are losing 6 million manufacturing jobs in 10 years why we have had 42,000 manufacturing plants close. Somebody has got

to stand up and say these are the reasons. This is why I think Congressman Lipinski's bill makes so much sense because we have got to look at all of them. One of the other things that we probably should have is the Department of State because we do trade agreements with people because the Department of State says this is how things are going to work.

Ms. SUTTON. Thank you, Mr. Hickey. I concur with your assessment. That was a very powerful answer, and I appreciate you bringing that up. I would like to just, if I could, Mr. Hassett, just ask you a couple of questions about the free market. Do you think that we are operating in some sort of global free market economy where free market principles exist across the globe?

Mr. HASSETT. To a varying degree, yes. Obviously, there is a lot of variation across countries and how free the markets are.

Ms. SUTTON. Right. So you would agree that countries manipulate their markets and entities manipulate their markets?

Mr. HASSETT. Some do, yes.

Ms. SUTTON. OK. Do you think that China under values its currency and manipulates its currency?

Mr. HASSETT. I can't answer that. I don't know what the right level of the currency for China is. Yes, I am not a currency expert. I can't tell you.

Ms. SUTTON. Does AEI have a position on that?

Mr. HASSETT. AEI doesn't take positions on anything. But I have colleagues that I would be happy to forward your question to.

Ms. SUTTON. OK. I would certainly be interested—

Mr. HASSETT. In fact, if you asked me the question what do people at AEI say about this, then I would be happy to give you a lengthy answer.

Ms. SUTTON. OK. Well, since we don't have time for a lengthy answer right now, I think your answer will suffice. Your answer is that you don't know if China manipulates their currency. OK. And, you know, we saw, and I know a lot of you will be well aware of this, and probably all of you, in the last year we saw a decision come through the ITC regarding oil country tubular goods that were being unfairly subsidized by the Chinese dumped into our market. And, Mr. Hassett, I would want to hear your opinion on this. Now the ITC eventually after months of going through the hearing process determined that indeed this was taking place and the President moved ahead with the recommendations to place anti-dumping and countervailing duties in that instance.

Is that the way that you think we can—you talked about there not being economic science behind all this. I also know that AEI is about dealing with problems, right, where they arise, so is that a sufficient answer or do you agree that there is some need to have a more proactive, you know, forward thinking manufacturing strategy that might deal with these problems before they happen and people in Ohio are out of a job for 9 months, 12 months before we get these duties in place?

Mr. HASSETT. I think that there are certainly cases where there are abuses, and that is why we have the systems that we do. The problem that I have is that if you were to ask what is the impact of trade on the welfare of Americans, I think that it is indisputably that it improves it. What is the impact of trade on the welfare of

specific workers, then it is more of an open question. Maybe Ohio is an area that has particular challenges because there are foreign competitors that for whatever reason, maybe abuse, can out compete them. I think that my position is that there are things that there is not really a dispute about.

The fact that right now our companies, including Mr. Hickey's company, has to pay a higher tax than his competitors. It is obvious that that is harmful. And so my concern is that we have got this sort of elephant in the room of a really big disadvantage for everybody, and then we don't like some of the effects of that like maybe there is not enough R&D so we have an R&D creditor. The manufacturing may be disproportionately hurt because it is easier to locate manufacturing offshore and then we want to do special subsidies for manufacturing. I think the better solution is to just fix the problem in the first place.

Ms. SUTTON. And, if I could, I know that my time is up, but I appreciate that your shift back to the issue of the tax structuring. Certainly, I want our tax structure to make sense, but that really doesn't answer the other question. I think you would have to agree that perhaps the efficiency in the approach that we have where we have our U.S. manufacturing and the workers subjected to a process that takes a year where they are sitting out of a job because somebody is cheating that perhaps we can do better.

Mr. RUSH. The witness can answer the question, but I just want you to know that—do you want to answer the question?

Mr. HASSETT. I agree. I agree. I said, yes, we should do better.

Mr. RUSH. The chair recognizes Mr. Murphy.

Mr. MURPHY. Thank you, Mr. Chairman. Thank you, panel. You have heard my comments before. I think it is important on an issue so important. I do appreciate all of your passion about helping to build up America's manufacturing particularly because of what I mentioned before about China is about to overtake us, and I don't think there is a person in this room that wants to sit back and let that happen. But I also think it is important, two elements in the legislation. One is that I want to make sure we are not abdicating our role as members of Congress. Certainly among 435 members of Congress, none of us are experts on everything but all of us are experts on something, and that is why we look to panels like you and other groups to provide that information to use to make sure we are passing legislation that works for the best interest of this Nation.

So along those lines, I wanted to ask you. How many of you own a company? All right. And now, as I understand, sir, in your company, your steel products distribution, but I think in your testimony you also said you are a supplier also for manufacturers as well as purchasing for manufacturers?

Mr. HICKEY. Our supply base would be U.S. Steel, New Core.

Mr. MURPHY. OK. Now so that is important for all of us to know that because I think also we would think if we knew our child was being taught by a teacher who had no teaching certificate or even the principal knew nothing about education, we would be concerned. I doubt if any of us would go to a hospital to be treated by a doctor who never practiced medicine. But I still want to hear your opinions, I think, so I am going to run through this panel, this

board that is supposed to—Manufacturing Strategy Task Force. I wonder if any of you know, do any of these following people have any manufacturing experience. Secretary of Defense, Robert Gates. Fine man. All these people are great people. As far as I can tell, he doesn't. Treasury Secretary Tim Geithner. Does anybody know? Good man. I don't think he does either. Gary Locke, Secretary of Commerce. One of our colleagues, Hilda Solis, Secretary of Labor. Steven Chu, Energy. The head of the National Economic Council, Lawrence Summers, anybody know if he has any manufacturing experience? National Economic Advisors head Christina Romer. I don't know either.

Head of OMB, Peter Orszag. How about the Office of Science and Technology Policy, does the head of that have any manufacturing experience, John Holdren? I don't know if he does. Director of Domestic Policy Council, Melody Barnes. Now I believe that Karen Mills, the head of the Small Business Administration, has worked for General Foods and also a company that manufactured hardwood flooring, refrigerator motors, and plastic injection molding. But how about the head of the NSC, does anybody know who the head of the NSC is and does this person have any manufacturing experience? Does anybody know who the head of NSC is?

Mr. PAUL. I believe it is Admiral Jones.

Mr. MURPHY. It is actually the President of the United States.

Mr. PAUL. The head of the—oh, I am sorry. The head of the National Security—

Mr. MURPHY. The head of the National Security Council. I believe that is one listed here.

Mr. PAUL. I am sorry. I thought you meant the National Security Advisor.

Mr. MURPHY. OK. But my point is in this that the two things that I want to make sure that we have is—now this is leading up to my question. I would like all the panelists to answer quickly. Who do you think should be on a panel to really give us based upon a wealth of experience information on manufacturing, they should actually be on a decision panel, who can we look to who really knows this and give us—we want expertise here. This committee wants expertise. I will just run by it. Where should we look? Mr. Paul.

Mr. PAUL. I think fundamentally there is a role for government to be on the side of manufacturing. I think that process should be—

Mr. MURPHY. I understand but so far we haven't come up with anybody who knows about it.

Mr. PAUL. But I think that process should be informed by people who are in manufacturing. I would argue that if you look in past administrations, I would include the Clinton administration, both Bush administrations, there has been a paucity of people who have a familiarity with manufacturing. That has been one of the challenges.

Mr. MURPHY. OK, next person. I need some answers.

Mr. GORDON. I believe people that understand manufacturing but because of the structural problems and the fact that they are strategic, I would say you need people with economic backgrounds as well as policy background.

Mr. MURPHY. OK.

Mr. HICKEY. Mr. Murphy, there is a National Manufacturing Strategy group now or a national manufacturing group. I know there is a company in Ohio that is in the machine tool business. I believe Dan Damico from New Core is on it, so that is a group that would be a good core to make part of this group.

Mr. MURPHY. All right.

Mr. HERRNSTADT. I think it would also be helpful to include workers who actually make the manufactured goods and have the experience from all levels.

Mr. MURPHY. Good. Thank you. Mr. Hassett.

Mr. HASSETT. And I disagree strongly with your point. I think that you don't have to own a theater to know Shakespeare, and I think that what we need if we are going to have this commission, which I hope we don't, is people who understand the importance of the neutrality of government policy, and that is probably not people who have a lot of manufacturing experience.

Mr. MURPHY. I don't have to own a theater to know Shakespeare but if you are going to own a theater you ought to know about owning a theater. So I would just look upon this and make a recommendation, Mr. Chairman, that perhaps there are some folks we could also have before us at some point as we are looking at legislation to look at some other people working this. I think they could help us strengthen this and improve upon some aspects of that bill. I think some good ideas came out of this panel. Thank you, Mr. Chairman.

Mr. RUSH. Thank you. Mr. Gonzalez for questions for 5 minutes.

Mr. GONZALEZ. Thank you very much, Mr. Chairman. I am going to commend Mr. Lipinski in his effort and I am going to make some assumptions that the Board, the task force will be in consultation, will include many sources and resources as they proceed but they will have a charge, and I think this whole effort here is to identify the need, have the structure, and then bring in all the necessary resources and it is going to be up to this committee and others to make sure that we have the oversight and that they do their job. Mr. Hassett, my observation with my staffer was I have never seen anybody enjoy testifying as much as Mr. Hassett, and that is a good thing because you have enthusiasm.

Now I am not going to agree with you. You made a statement that the only way this would work would be if the board and the task force would be irrelevant because you see that if they are relevant they can only do harm because they are going to meddle, is that correct?

Mr. HASSETT. That is, I guess, the most likely outcome, I would think, yes.

Mr. GONZALEZ. So I doubt if we are going to agree on a whole lot, and I know that you said that Mr. Hickey can't be competitive because he pays more taxes. I mean that is the whole reason that he can't be competitive because he pays more taxes.

Mr. HASSETT. That is not what I said. What I said is that that is a really big disadvantage that he faces relative to his trading partners, and that on that we know in the United States that everybody has that disadvantage in manufacturing and in other industries as well. So my point is there is an elephant in the room.

Mr. GONZALEZ. And we could have a really good discussion as to where we are in economic development in our point in history and why and lessons learned that requires what we do today. Now we are going to have a difference of opinion to the degree but there are many things out there, and I think it is interesting, and I am going to quote from Harold Myerson in the Washington Post, December 15, 2009. "America's production of goods no longer receive the level of investment that had made it the engine of our economic growth from the mid-19th century through the 1970s. The change began at the outset of the Reagan years when the percentage of corporate profits retained for new investment dropped sharply. In the prosperity years of 1946 to 1979 dividends constituted 23 percent of profits. From 1980 to 2008, the constituted 46 percent."

And it is something that my colleague, Ms. Sutton, pointed out. How we make money, how we invest money in this country has been a way from manufacturing into something that maybe we make money out of money, and we know what happened in the financial sector. Let us go back to regulation, which I think you have a certain disdain for. Had we had that regulation, had we had that oversight, we would have noticed what was going on in the financial sector that led to the economic meltdown. So regulation is necessary in all aspects, but I would hope that this task force and this board will be able to identify what is going on out there. Where is the investment being made in America and why is it an easier dollar to be made away from a solid investment in manufacturing. Those are the questions that I think will be pointed out. And the fact that maybe we encourage not investing in a manufacturing base.

I will ask you this because I know Mr. Hickey is in competition with foreign companies and such. Do you believe in the minimum wage? Should we have a minimum wage? Do you believe in OSHA?

Mr. HASSETT. Yes.

Mr. GONZALEZ. Why? Shouldn't the employer just rise to the responsibility of taking care of an employee and have safe working conditions? Why wouldn't you just trust the situation?

Mr. HASSETT. In part because not all employers are necessarily going to work to the benefit of their workers.

Mr. GONZALEZ. Do you believe in the Clean Water Act?

Mr. HASSETT. Absolutely.

Mr. GONZALEZ. Do you believe in the Clean Air Act?

Mr. HASSETT. Yes.

Mr. GONZALEZ. Do all those other countries that are competitors have anything similar to what I just described?

Mr. HASSETT. Some do, some don't.

Mr. GONZALEZ. Mostly don't, wouldn't you agree, seriously?

Mr. HASSETT. In the developed world, they do. The air and the water is clean—

Mr. GONZALEZ. Well, the developed world. You know, Germany, gee, we compete with those German made vehicles and such, but do they have any advantage over maybe a domestic manufacturer?

Mr. HASSETT. They have a tax advantage for sure.

Mr. GONZALEZ. Any other advantages other countries may enjoy? Health care paid for by the government.

Mr. HASSETT. But they are taxed to pay for that, so it is not clear if it is a more efficient method.

Mr. GONZALEZ. But there are advantages out there—

Mr. HASSETT. But, again, the thrust of my testimony is that if we make money because someone in the U.S., because somebody invents a very cool piece of software that helps people do something better or because someone makes a great movie that they make millions of dollars in revenue from having people all around that will go to it, that that is good too, but what we need to do is make policy—not have policy decide what we are going to do in the future but make it a vibrant place to do anything that is productive.

Mr. GONZALEZ. Well, then you would say basically have no policy, no regulation, no law because, don't worry, markets will take care of themselves and everybody is going to do the right thing by their investor and so on. I mean we have example after example of that recently. Everyone did the right thing. But, no, that is not true, and I think what you espouse—and I understand you may feel very strongly about it, but I think it is exaggerated. You are not entirely wrong. I think it is a question of degree. But what I think the other witnesses were testifying to is the attention and the energy that is required of this government to examine the loss of manufacturing jobs in America and to determine whether we have policies that work against it, can we have policies that will encourage it.

Mr. RUSH. The gentleman's time is up. The chair recognizes Mr. Lipinski for 5 minutes.

Mr. LIPINSKI. Thank you, Mr. Chairman. I want to thank the witnesses for their testimony and for their recommendations for improving this bill and thank the members of this committee for their recommendations. I think that there certainly is always room for making things better, and I appreciate the suggestions when I work with you as we move forward on this. A couple things I did want to raise though, Ranking Member Whitfield had raised the only talking about small manufacturers. It really is just talking about in particular by small and medium size manufacturers and because the problem is often faced by these small and medium size manufacturers relative to large manufacturers and unfortunately I think a lot of times the large manufacturers are the ones that get the most focused, but it is not exclusive to them.

And Mr. Murphy had raised the issue about everyone on the task force being from the government and heads of departments and agencies, and also it says in the bill that there will be subgroups to advise the task force including members from the private sector. And I certainly agree, and I think that is why all these recommendations have been very constructive that we do need to make sure we are listening to those who are on the front line, people like Mr. Hickey who have been working for years in manufacturing. A couple things I wanted to talk about and ask a couple questions if I have time is, first of all, I certainly feel and I think most of us, maybe not everyone here agrees that manufacturing is something that is especially important for our country. Many other countries certainly believe that it is important for their country, it is not only China, India that we are talking about, United Kingdom, Brazil, Canada all have manufacturing strategies. Mr. Dingell mentioned Germany also.

And the reason for this is, I think, what Mr. Hickey spoke about is that manufacturing actually produces wealth, and I think that is something that the American people after we saw the financial crisis and said what are we doing in our country that actually produces wealth. And I think that is why there are a lot of concerns out there, and certainly the polling shows that people would like to see promotion of manufacturing. I think it is important for our country. But I want to ask a question of Mr. Gordon because the other part of manufacturing that I think makes it particularly critical for our Nation is for defense. I just want to ask Mr. Gordon, have you seen what you believe the diminution of our defense capabilities or potential diminution in the future with what has happened with manufacturing in our country.

Mr. GORDON. Absolutely. Every month our manufacturers that may be secondary suppliers or may be a primary supplier for a defense system and they are going out of business, there are multiple reasons for that, and that does weaken our national security for a couple different reasons. One is when you go off shore with a manufacturer, you don't have an assured source of supply that is free of any political or other issues. And also you need a trusted source of supply so there is many—there are about 50 or 60 suppliers that go out of business for the Defense Department every month, and these are listed in the DMSMS working group, which is a small area.

Mr. LIPINSKI. Thank you. I wanted to ask Mr. Hickey, as a member of a Commerce Department advisory committee, do you see that it is especially important from your experience there, especially important that we have a National Manufacturing Strategy that is coordinated from the top level from the President in order to make sure that we actually are having some kind of coordinated policy rather than a lot of disjointed policies and program that may not really work well together and promote manufacturing.

Mr. HICKEY. Congressman, this is exactly my frustration on this. I have been on this committee for about 10 years. We advise the USTR and the Department of Commerce on trade policies that has to do with the steel industry. We get a lot of discussion but there never seems to be a coordination. I will come back to the best study I saw in a long time done by the Commerce Department under Mr. Aldonas back in, oh, I don't know, it was probably '94 or '95, and he basically said, you know, this is the best I could do because there is way too many different people who don't really have a value for manufacturing. You know, and it may be an assistant secretary here or whatever. You have to have the President of the United States say this is a priority for our country. The Defense Department is even the—we don't have enough steel today to make certain plates that we need for the military applications we have going on today. We are importing them from other countries.

Mr. LIPINSKI. Thank you. I yield back. Thank you, Mr. Chairman.

Mr. RUSH. The chair will entertain one additional question from any member who desires. Is there any member who desires an additional question? Ms. Sutton, would you like to ask an additional question?

Ms. SUTTON. Sure, Mr. Chairman. Thank you very much. Mr. Paul, you mentioned that Germany has an integrated strategy on manufacturing, and, Mr. Herrnstadt, your testimony also referred to China and the European Union. And I would just like for you to expand upon that a little bit because this isn't something that we are just doing in a vacuum but others are obviously taking action so if you could elaborate on how those countries' strategies compare to the National Manufacturing Strategy that we are contemplating in this bill and whether there are additional countries with the National Manufacturing Strategy and whether you believe those strategies have placed them at an advantage.

Mr. HERRNSTADT. I would be happy to respond briefly, and I think it is a terrific question. First, there are strategies we don't want to pursue like China's which is heavily mercantilist. I don't think anyone wants to see our factory workers working for \$250 a month. That is not a tenable manufacturing strategy for the United States. Germany, on the other hand, which in many cases has higher compensation cost for workers, faces an extraordinary high level of regulation, is able to succeed. In fact, Germany has held its share of production and of exports as the U.S. shares of these have dropped over the past decade and China's have dramatically risen. The reason is because manufacturing strategy is important to the German government. It is important across party lines.

And I would add it represents a lot of labor management, academic, and governmental cooperation working together on research production, skills and training, a very aggressive trade policy, and a policy that is designed to keep innovations in Germany. I mean, for instance, German is one of the world leaders in wind and solar production, but Germany is not a windy place. It is not a sunny place. But they make the stuff because they have a manufacturing strategy and they want to sell to the rest of the world.

Mr. RUSH. The chair now recognizes Mr. Dingell of Michigan for 5 minutes.

Mr. DINGELL. Mr. Chairman, you are most courteous and kind. Thank you. This is to Mr. Paul, Gordon, and Herrnstadt. H.R. 4692, as currently written, requires the President to draft a National Manufacturing Strategy based on the input of a Manufacturing Strategy Task Force and Manufacturing Strategy Board. Do you believe that these two agencies should collaborate to draft the National Manufacturing Strategy instead of the President? Yes or no.

Mr. PAUL. I think at the highest level the President needs to take ownership for the strategy.

Mr. DINGELL. Yes or no. Should they do it instead of the President? We will come to that point then.

Mr. PAUL. They should certainly submit the recommendations. I think the President should make the ultimate call.

Mr. DINGELL. All right. And now Mr. Gordon.

Mr. GORDON. I would say yes. I think that in my testimony I said that the task force should draft a strategy and the board should inform it.

Mr. DINGELL. Thank you. Mr. Herrnstadt.

Mr. HERRNSTADT. I will agree with that has already been said.

Mr. DINGELL. You do or don't?

Mr. HERRNSTADT. I think they should make recommendations to the President. That is ultimately where it rests.

Mr. DINGELL. All right. So you think that they should make recommendations that the President should submit the policy to us, to the Congress, is that right, that statement that you are making, gentlemen? All right. All except, I guess, Mr. Gordon, but I don't see you are too much out of pace. All right, gentlemen, thank you. Now, again, to Mr. Paul Gordon and Mr. Herrnstadt. Further, should the membership of the Manufacturing Strategy Task Force be expanded to include the Department of State, the United States Trade Representative and U.S. Import-Export Bank? Yes or no, starting with Mr. Paul.

Mr. PAUL. Only if they say the right thing.

Mr. DINGELL. I am sorry?

Mr. PAUL. Only if they say the right thing. I think they should be included but they are often particularly unhelpful.

Mr. DINGELL. I am not sure we can censor at best what they had to say. If you would please, Mr. Gordon.

Mr. GORDON. I would say the state absolutely. I would also suggest Homeland Security and National Science Foundation.

Mr. DINGELL. Thank you. Mr. Herrnstadt.

Mr. HERRNSTADT. Yes. I think they should be included.

Mr. DINGELL. Do you have some brief words of explanation as to why you feel this way, gentlemen?

Mr. GORDON. I would say the state has a great deal to do with export control and manufacturing and trade. I believe that Homeland Security also has a rather large role in terms of making sure that you have assured sources for Homeland Security, and the National Science Foundation makes a lot of the R&D policy and investment in our next generation manufacturing technologies.

Mr. DINGELL. Of course, I have got to admit that the Department of State has at least to me been a tremendous disappointment with regard to trade matters. I sometimes wonder whether they represent us or somebody else. Now, gentlemen, again, Mr. Herrnstadt notes in his written testimony that the Manufacturing Strategy Board established pursuant to H.R. 4692 would not be chaired by a representative of organized labor. You have brought to my attention a concern I think we may share. Do you believe a representative of organized labor should be denied the opportunity to co-chair such a board? Yes or no.

Mr. HERRNSTADT. Absolutely not. I think they should be a member of the co-chair.

Mr. DINGELL. OK. Thank you. Do you have a reason that you would like to give us for that? Is there a reason you would like to say that that should be done that way, that they should have an opportunity to co-chair?

Mr. HERRNSTADT. Sure. Keeping in framework of the way the task force has been formed it looks like it is trying to attempt some sort of well balance to bring divergent views to the forefront, and if you only leave chairs of folks that don't represent workers, particularly workers in the manufacturing era, you deny that opportunity to bring that.

Mr. DINGELL. Again, to Mr. Paul, Gordon and Herrnstadt. Gentlemen, H.R. 4692 requires the President to appoint members of

the Manufacturing Strategy Board after consultation with industrial organizations. Do you believe that such industrial organizations should include labor unions? Yes or no, starting with Mr. Paul.

Mr. PAUL. Speaking as someone who represents both labor and business, I do, yes.

Mr. DINGELL. OK. Mr. Gordon.

Mr. GORDON. Yes, I do, because I believe that they have a great stake in that.

Mr. HERRNSTADT. Yes.

Mr. DINGELL. Gentlemen, the same three witnesses, if you please. H.R. 4692 requires the President to release the National Manufacturing Strategy by the end of the second year in office. Now the calendar here may give us pause. Should this be modified in light of the fact that the current President's second year is half-way done? What are your comments on that, if you please, starting with Mr. Paul.

Mr. PAUL. I think, quite honestly, if we want a robust document, I think there is a reasonable possibility it should be put back to give them a little more time.

Mr. DINGELL. Give them enough time to do the job, is that what you are saying?

Mr. PAUL. Absolutely.

Mr. GORDON. I would agree with that, absolutely.

Mr. DINGELL. And you, Mr. Herrnstadt?

Mr. HERRNSTADT. Yes, I agree there needs to be adequate time, but I also think that this urgently has to be done.

Mr. DINGELL. I think your counsel as to how we do it urgently and at the same time give them enough time will be earnestly sought for the record. I note, Mr. Chairman, you have courteously given me more time than I am entitled to. Thank you. Thank you, gentlemen.

Mr. RUSH. The chair now recognizes Mr. Lipinski.

Mr. LIPINSKI. Thank you, Mr. Chairman. I just want to ask Mr. Herrnstadt, are there things that you believe would be especially important for a manufacturing strategy from what you have seen in manufacturing?

Mr. HERRNSTADT. I think one of the hopes of the task force and the board the way you formulated it is that all the stakeholders will be at the table to give some give and take to develop the strategy, and I think it will address this issue in the long term and also I think it is important that this will be a permanent and institutionalized task force, so it is not just a one-shot deal where it just issues a report and then everything goes away. And I think the thrust of that is very important, but in the meantime I think there is a lot that has to be done. As Congresswoman Sutton and others have talked about, and as my members are experiencing, they are losing their jobs every day, every week, every month. And some sort of strategy, at least short term, needs to be implemented as soon as possible to help alleviate this and to help rebuild our economy.

Mr. LIPINSKI. Thank you. And I want to thank Chairman Dingell and Ms. Sutton and Mr. Whitfield, and especially Chairman Rush for the opportunity to discuss this bill, and thank you for your rec-

ommendations and especially thank the witnesses for your testimony.

Mr. RUSH. The chair thanks all the witnesses for appearing today. You have been more than gracious with your time, and you provided us some wonderful insight into this whole area of discussion and you have empowered this subcommittee with your grasp of the issue. Thank you so very much. Before we adjourn, I do have a unanimous consent request that a statement of the National Association of Manufacturers on the National Manufacturing Strategy Act, H.R. 4962, be submitted for the record, and hearing no objection, so ordered.

[The information follows:]

Statement of the Honorable Joe Barton
Ranking Member, Committee on Energy and Commerce
Hearing on H.R. 4692, The National Manufacturing Strategy Act of 2010
July 14, 2010

Thank you, Mr. Chairman.

We all want to see the U.S. economy restored to previous levels of output so people can get back to work. How we try to do that will be dictated by what we believe. Some people believe we don't have enough government, and they have a bill to show us how to have some more. I think we don't have enough freedom. I believe in freedom from the job-killing regulations and tax policies that constitute a roadblock to economic expansion.

Our majority friends are not the first to try their hands at central planning and top-down economic directives, and that's how we know for sure that those ideas actually retard prosperity and expand poverty.

The specific idea that we need some kind of intense study to discern why manufacturing employment has fallen and to show the federal government how to make things right again is absurd. Manufacturing employment in the U.S. is down because of the following: **bad tax policy.**

It isn't fashionable to notice this out loud in some circles, but America has the second highest corporate tax rate in the developed world, and will soon

move into the top spot once Japan's government follows through on its pledge to reduce its corporate tax rate. In the last 20 years, every single OECD (Organization for Economic Cooperation and Development) country has reduced its corporate tax rate save for one: the United States.

Companies create real jobs, while government sapping taxpayer funds zaps real jobs. The more we tax employers, the less we should expect them to produce goods, services, and jobs.

The facile answer to this problem, according to the leadership of organized labor, is to convince other countries to follow our mistakes and tax their employers until they scream. Taxation on corporate investment costs the economy more than any other tax in terms of foregone investment, income, and jobs.

Manufacturing employment also has fallen for the same reason agricultural employment has fallen over the last century--phenomenal advances in productivity that have dramatically increased living standards across the world over that time span. **Manufacturing employment today is approximately the same as it was at the beginning of the twentieth century.** Over that period the United States has created nearly 100 million additional jobs, and living standards have increased by an order of

magnitude. Efficiency in manufacturing has freed up millions of workers to enter new sectors of the economy--think of the millions of people who are now employed producing software, or those working for the hundreds of cable and television networks that did not exist 30 years ago.

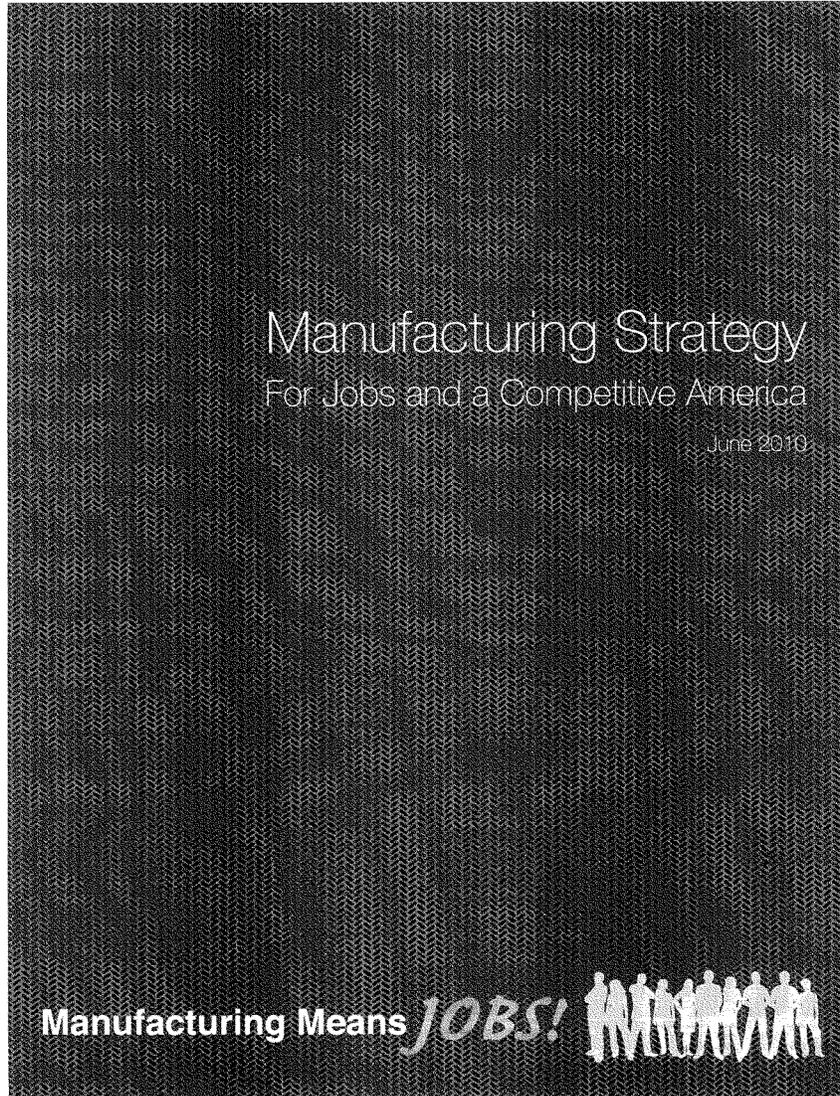
A final note: we have before the Congress right now a simple way to help our manufacturing sector and increase our exports today, and that is to pass the Free Trade Agreements with Panama, South Korea, and Columbia.

Caterpillar is poised to increase its sales by billions of dollars once it obtains unfettered access to these three markets: Harley-Davidson faces a tariff that keeps its motorcycles almost completely out of Columbia, but could see the value of its exports increase by hundreds of millions of dollars if the tariffs disappear. With South Korea, our farmers stand to see exports increase by billions of dollars a year. A recent estimate suggests that meat exports alone will increase by \$2 billion a year if the Korean FTA passes.

Now, back to the bill. There's no mystery what an administration-guided study is going to conclude: more "managed" trade, more subsidies for outmoded industries with political clout, and a growing role for government in the economy. When President Obama campaigned for office, he said Washington doesn't need another study or commission to understand our

problems; he said Washington needs to act. Calling a commission to study a problem “pass[ing] the buck” and “the oldest Washington stunt in the book,” President Obama told a Colorado audience “[w]hat we need now is leadership.” I agree. Let's not waste millions of dollars so that the Administration can make another political statement and call it economic policy when we have real solutions in front of us right now.

Mr. RUSH. The committee now stands adjourned.
[Whereupon, at 4:52 p.m., the Subcommittee was adjourned.]
[Material submitted for inclusion in the record follows:]



Manufacturing Strategy

For Jobs and a Competitive America

June 2010

Manufacturing Means ***JOBS!*** 

A Manufacturing Strategy for Jobs

America's prosperity and strength are built on a foundation of manufacturing.

Manufacturers create, innovate and employ millions of Americans in some of the best jobs our country has to offer.

The United States continues to stand strong as the No. 1 manufacturing economy in the world, producing 21 percent of global manufacturing wealth. Nearly 12 million Americans work in the manufacturing sector, earning 22 percent more in wages and benefits than the rest of the workforce.

But U.S. leadership in manufacturing is under fire, facing its toughest competition in the nation's history. States used to battle each other to recruit new factories and manufacturing jobs. Today, states go head-to-head against foreign governments that can use all the tools of government to support industry. Our states — and the United States — are being outgunned.

Yet we have no battle plan, no comprehensive approach for making manufacturing in the United States more competitive, more productive and creating even more high-paying jobs. The unprecedented challenge to U.S. manufacturing pre-eminence requires clear thinking, a global vision and a plan.

The United States needs a manufacturing strategy — a *Manufacturing Strategy for Jobs and a Competitive America*.

For years, Washington has tried to encourage industry with legislation, government initiatives and small fixes. Some produced benefits; others caused harm. And the reality is that the United States lost 2 million manufacturing jobs during the latest recession.

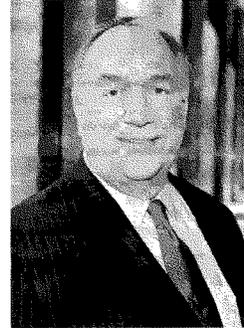
A manufacturing strategy will take a comprehensive view of what is needed for manufacturing in America to succeed in the face of global competition. Such a strategy should set high goals:

- The United States will be the best country in the world to headquarter a company. We want companies to be based in the United States.
- The United States will be the best country in the world to innovate, performing the bulk of a company's global research and development.
- The United States will be a great place to manufacture, both to meet the needs of the American market and serve as an export platform for the world.

A strategy assesses the strengths of the competition. Through tax and trade policy, Europe's leaders foster their industries' investment and innovation. China's entire economic program is based on the export of manufactured goods; the rising powers of India and Brazil aggressively protect and promote their domestic manufacturing companies. Across the globe — in Asia, Europe, South America, Canada, Australia — nations are negotiating trade agreements that expand their access to customers and markets to the disadvantage of manufacturers in the United States. These countries strategize for success.

The U.S. response has fallen short of the challenge. Some in the United States have given up on manufacturing, believing, "We just don't make things anymore." Others react passively, assuming things will work out. Others, claiming to promote the "right" manufacturing jobs, propose new taxes, regulations and government programs that make it harder for existing businesses to add new employees.

In the following *Manufacturing Strategy for Jobs and a Competitive America*, we lay out a comprehensive plan for supporting jobs and the U.S. manufacturing economy.



The strategy proposes policy changes that, taken as a whole, will allow manufacturers in the United States to compete effectively in the global marketplace. The strategy highlights the need for:

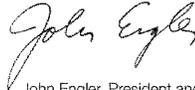
- Tax policies to bring America more closely into alignment with major manufacturing competitors
- Government investments in infrastructure and innovation
- Trade initiatives to reduce barriers and open markets to U.S. exports

The strategy calls for comprehensive action on critical priorities such as energy, education and regulation, while pointing out where misguided policies would undermine the strategy's proposals for positive change.

The Manufacturers call on members of Congress, candidates for office and opinion leaders to join us in supporting and publicly endorsing this comprehensive strategy. Most importantly, once elected, advocates for manufacturing should seek to implement the strategy through their actions and votes.

America's vitality, innovation, prosperity and jobs spring from manufacturing. To preserve and build on that greatness, it is time for our nation to embrace this *Manufacturing Strategy for Jobs and a Competitive America*.

Sincerely,

A handwritten signature in black ink that reads "John Engler". The signature is written in a cursive, flowing style.

John Engler, President and CEO
National Association of Manufacturers

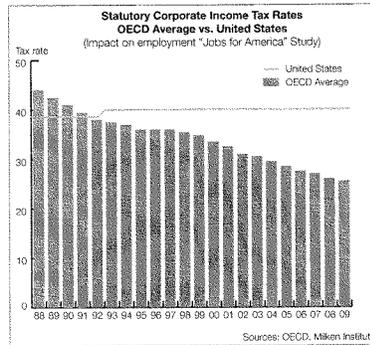
The United States Will Be the Best Country in the World to Headquarter a Company.

Manufacturing today is global and mobile. Companies often enjoy an array of attractive choices when deciding where to locate their headquarters, do their research or build new facilities. While the use of government incentives is commonplace today, a country's or state's business climate itself ultimately determines where a company will be located.

As a springboard for future economic growth, investment and jobs, manufacturers believe the United States must seek to be the best country in the world in which to locate a manufacturing company's headquarters. To do so, the National Association of Manufacturers (NAM) supports these policies and actions:

✓ **Create a national tax climate that does not place manufacturers in the United States at a competitive disadvantage in the global marketplace. A pro-manufacturing tax policy must first acknowledge that when Congress raises taxes, it makes manufacturers in the U.S. less competitive:**

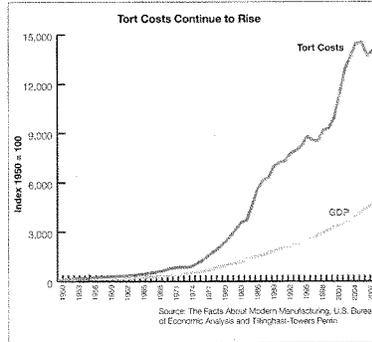
- Reduce the corporate tax rate to 25 percent or lower without imposing offsetting tax increases.
 - The United States now has the second highest statutory corporate tax rate among the major industrial countries in the Organization for Economic Cooperation and Development (OECD), trailing only Japan. Other countries have been regularly lowering their tax rates to encourage economic growth. A recent analysis by the Milken Institute, "Jobs for America," concluded that reducing U.S. corporate income tax rates to the current average of OECD countries would stimulate growth in the manufacturing sector and create more than 2 million jobs by 2019.
 - Promote fair rules for taxation of active foreign income of U.S. based businesses.
 - The United States is unique among major industrial nations in taxing a company's global income — as opposed to a territorial tax system. This feature of the U.S. tax code poses special challenges when it comes to global investment decisions and the return of foreign profits to the United States.
 - Institute permanent lower tax rates for individuals and small businesses.
 - Small businesses are responsible for the bulk of new jobs created in the United States, and tax policy should support the capital formation that encourages new businesses and expansion. Capital gains, accelerated depreciation and expensing and estate taxes are also areas where long-term lower tax rates strengthen manufacturing and job creation.
- ✓ **Encourage the dynamic labor market that is one of America's great competitive advantages. Companies must move quickly to meet the demands of a rapidly changing marketplace, and the continuing expansion of federal mandates and labor regulations undermines employer flexibility. In addition, increasing costs discourage the hiring of new employees. To encourage competitiveness, the United States should:**
- Reject new federal regulations that dictate rigid work rules, wages and benefits and that introduce conflict into employer-employee relations.
 - Oppose the Employee Free Choice Act in any form, including individual provisions such as forced arbitration and snap elections.
 - Resist National Labor Relations Board (NLRB) rulemaking that overturns the long-established balance in management-labor relations.



- Support initiatives at the Occupational Safety and Health Administration (OSHA) and other oversight agencies that encourage employers and employees to join in cooperative efforts for safer working environments.
- Recognize and promote the voluntary efforts of employers to meet the needs of individual employees through flexible work schedules and benefit arrangements.

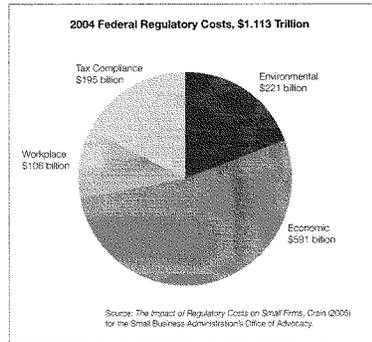
✓ **Implement a common-sense, fair approach to legal reform. Direct tort costs account for almost 2 percent of GDP in the United States – the highest in the world—and our system of “jackpot justice” injects damaging risk and uncertainty into the business climate. A manufacturing strategy will bring legal costs under control to end that disadvantage:**

- Restore fairness in our legal system. Provide clear standards for liability and justice for all parties, including specific statutes of limitations, sanctions on frivolous claims and limits on punitive damages.
 - Preserve federal pre-emption for federally approved products in national commerce, preventing use of litigation in 50 state courts to function as de facto regulators.
 - Oppose special-interest legislation that incentivizes and subsidizes litigation against manufacturers, such as tax deduction for contingency lawsuits.
 - Maintain the force of the Class Action Fairness Act.



✓ **Create a regulatory environment that promotes economic growth. For laws that affect manufacturers, there are often scores of regulations that impose substantial compliance costs – burdens often never anticipated by the lawmakers who passed the legislation. The Small Business Administration’s Office of Advocacy has estimated that regulatory compliance costs amount to \$1.1 trillion annually. A pro-growth regulatory environment should:**

- Balance costs and benefits of regulation, preventing the imposition of regulatory burdens that are counter-productive or force businesses to close.
- Defend the policymaking role of Congress by opposing its circumvention through regulatory rulemaking. For example:
 - Reject the Environmental Protection Agency’s (EPA) efforts to exceed its authority when it seeks to establish national economic policy through greenhouse gas regulations.
 - Resist expansion of the Federal Trade Commission’s (FTC) authority that would give the FTC broad new powers over nearly every sector of the U.S. economy.



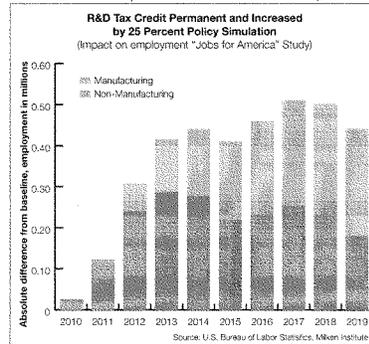
The United States Will Be the Best Country in the World to Innovate, Performing the Bulk of a Company's Global Research and Development.

Innovation has long helped manufacturing in the United States maintain its global leadership. Between 2000 and 2006, manufacturing productivity increased annually by an average of 3.8 percent, primarily due to innovation and technological advances spurred by research and development (R&D).

A long-term *Manufacturing Strategy for Jobs and a Competitive America* will further investment in the research, ideas and people who produce innovation. R&D is, as the Commerce Department's Manufacturing Council phrased it, "the single most important source of technological advancement leading to higher productivity."

✓ **Enact tax provisions that will stimulate investment and recovery, including:**

- Strengthen and make permanent the R&D tax credit. Manufacturers in the United States need the certainty and incentives provided by a permanent and robust research and development tax credit.
- The Milken Institute's "Jobs for America" analysis reported that increasing the R&D tax credit by 25 percent and making it permanent would enhance American innovation: By 2019, real GDP would rise by 1.2 percent (or \$206.3 billion) and 270,000 manufacturing jobs would be created. President Obama has called for a permanent R&D tax credit, and members of both parties of Congress support it.



✓ **Encourage the federal government's continued critical role in basic R&D by:**

- A continued focus by the federal government on basic R&D that expands the knowledge base, spurring private-sector R&D as well as later commercial development. Innovation is served by robust funding for federal research agencies as well as financial support for public- and private-sector research.

✓ **Recognize intellectual property (IP) as one of America's competitive strengths that must be defended at all levels, domestically and globally. U.S. IP is worth between \$5 trillion and \$5.5 trillion, yet the continuing trade in counterfeit products results in the loss of hundreds of thousands of jobs annually. The Strategy should:**

- Support enhanced efforts against counterfeiting through Executive Branch agencies, including Treasury, Justice and Customs and Border Protection.

✓ **Attract the best talent from here in the United States and from the entire world:**

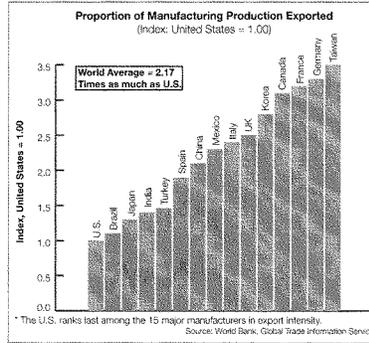
- Support substantial increases in the number of employer-sponsored visas.
- Between 1995 and 2005, immigrants founded or co-founded 25 percent of all U.S. high-tech firms. Reform of U.S. immigration law regarding legal immigrants is essential to the nation's competitiveness. Such reform must include increases in the numbers of employer-sponsored permanent visas, streamlined and simplified procedures for the temporary or non-immigrant visas, and other changes to enhance flexibility in responding to employer demands.

The United States Will Be a Great Place to Manufacture, Both to Meet the Needs of the American Market and Serve as an Export Platform for the World.

Manufacturing shipped a record \$5.8 trillion in 2008 (\$1.6 trillion in value added) and provided 11 percent of the nation's GDP. Exports of manufactured goods have driven the 2009-2010 economic recovery. An effective manufacturing strategy will promote domestic manufacturing that serves the U.S. and the increasingly integrated North American markets, while also supporting companies that export and expand abroad to serve foreign markets. In both cases, maintaining a strong manufacturing base requires a comprehensive energy strategy, robust infrastructure investment and skilled employees.

✓ **Promote progressive international trade policy that opens global markets, reduces regulatory and tariff barriers and reduces distortions due to currency exchange rates, ownership restrictions and various "national champion strategies." Specifically, a progressive trade policy will:**

- Enact pending trade agreements and negotiate additional agreements in the Pacific area and elsewhere.
 - Fifty-seven percent of all U.S. exports of goods and services are manufactured goods. Trade agreements reduce the barriers to U.S. exports and are a proven benefit to manufacturers. Over the past two years, manufacturers in the U.S. sold nearly \$50 billion more in manufactured goods to our free trade partners than we bought from them.



- Promote a World Trade Organization (WTO) Doha Round result that will slash tariffs and non-tariff barriers.
 - The United States must become more engaged in negotiating and enacting trade agreements, while pursuing multilateral action (such as the WTO Doha Round negotiations) that comprehensively — and fairly — reduce trade barriers to manufacturing exports.

✓ **Modernize the United States' outdated export control system to encourage exports and strengthen national security:**

- The current export control system unnecessarily limits the development and sale of U.S. high-tech products commercially available elsewhere.
 - The Milken Institute's analysis, "Jobs for America," reports that modernizing export controls on commercially available technology products could expand real exports of goods and services by 1.9 percent (or \$56.6 billion) and create 340,000 jobs by 2019.

✓ **Assist and energize exporting by small and medium-sized manufacturing through expanded export promotion programs as well as export credit assistance for both small and large firms:**

- The United States has many effective but underfunded tools to help manufacturers export, such as trade fairs, marketing assistance and the Export-Import Bank.

✓ **Create a comprehensive energy strategy that embraces an "all of the above" approach to energy independence:**

- Encourage production of baseload electricity — the dependable power that is critical to manufacturing processes — including traditional (coal, hydropower and natural gas), nuclear and renewable and alternative fuels.
- Reduce dependence on foreign energy by increasing domestic supply: Expand production of oil and natural gas by lifting the moratorium on Outer Continental Shelf development, and encourage development of shale gas.

✓ **Promote policies that protect the environment, encourage additional investment and innovation, and recognize the global scope of many environmental issues:**

- Establish federal climate change policies that reduce greenhouse gases while maintaining a competitive playing field.
 - A comprehensive approach toward reducing greenhouse gas emissions is critical. A unilateral, U.S.-only approach toward this global issue could have a severe, anti-competitive effect on manufacturers in the U.S. and the entire economy.
- Pursue legislation that pre-empts regulatory efforts, state and local laws, regional programs and related litigation.
 - Manufacturers need policies that remove market barriers to achieving energy efficiency and create incentives for emissions reduction at a net economic gain. EPA's regulation of greenhouse gas emissions under the Clean Air Act circumvents the policymaking branch of government and Congress and reflects an extreme approach that would damage the ability of manufacturers in the U.S. to create jobs and compete globally.
- Support the deployment and development of new, energy-efficient and environmentally friendly technologies that will add jobs while improving our environment.

✓ **Invest in infrastructure to help manufacturers in the United States more efficiently move people, products and ideas:**

- Support innovations that include capital budgeting, private investment bonding, environmental permit streamlining and flexibility to the states as part of a comprehensive infrastructure strategy.
 - The long-term reauthorization of surface transportation funding should be a priority for both immediate job creation and long-term competitiveness.
 - Authorize, invest in and accelerate the development of a satellite-based Next Generation Air Transportation System.
 - Encourage high-speed communications and innovation through broadband infrastructure investment.

**The Milken Institute's Analysis,
"Jobs for America"**

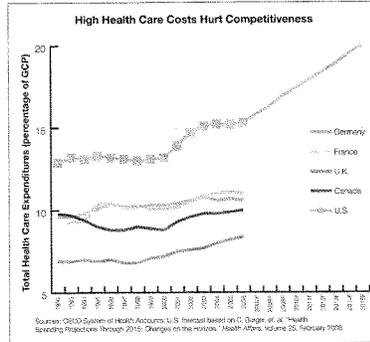
- Estimates that highway and transit investment of \$225 billion over three years will create a total of 6.2 million jobs, \$238 billion in earnings and \$775 billion in output.
- Projects that NextGen investment of \$10.4 billion over three years will create a total of 181,900 jobs, along with \$9 billion in earnings and \$32 billion in output.
- Estimates that broadband infrastructure investment of \$56 billion will generate a total of nearly 1.1 million jobs, \$44 billion in earnings and \$158 billion in output.

✓ **Encourage innovation through education reform, improvement and accountability:**

- Invest in science, technology, engineering and math (STEM) education.
 - Manufacturing increasingly requires a skilled workforce able to build on strong fundamentals in math, science and analytical abilities to adapt to new technologies and rapidly changing manufacturing processes. Unfortunately, skills gap surveys consistently underscore how a majority of manufacturers in America are facing a serious shortage of qualified employees.
- Improve the quality of education in early childhood, primary, secondary and post secondary school systems.
 - Promote a system of nationally portable, industry-recognized skills credentials — an approach that provides employers with the certainty that they are hiring a skilled technical workforce, at the same time providing expanded opportunities for workers regardless of whether they are new or transitioning to new careers.

✓ Support health care reform that drives down costs:

- Contain the cost of health care by building upon the existing employer-sponsored health care system without jeopardizing or mandating plan design.
 - The health care law passed by Congress in 2010 must be continually assessed for its effectiveness, cost and unintended consequences.
 - Regulations to implement the law must be fully transparent and must not add new employer mandates and costs.



The Future is Now

Each of the priorities and policy recommendations included in this *Manufacturing Strategy for Jobs and a Competitive America* would improve the ability of manufacturers in the United States to compete in the global marketplace. But the power of the recommendations grows when considered and enacted as a whole — as a comprehensive strategy.

The United States is the strongest, largest and most productive manufacturing economy in the world. But our competitors want to take our place, and their national governments dedicate themselves to this goal with resources and strategic planning. America must do better.

We want the United States to be the best place in the world to headquarter a business. The United States should be the best place to innovate and do the bulk of a company's global research and development. And the United States should be a great place to manufacture for the North American market and to serve as an export platform for the global market.

The United States should be the greatest place in the world to be a manufacturer and to be a manufacturing employee. If put into effect, the *Manufacturing Strategy for Jobs and a Competitive America* will help achieve this critical goal for our nation.

The Facts About Manufacturing in the U.S.

- The United States is the world's largest manufacturing economy, producing 21 percent of global manufactured products. Japan is second at 13 percent and China is third at 12 percent.
- U.S. manufacturing produces \$1.6 trillion of value each year, or 11 percent of U.S. GDP.
- Manufacturing supports an estimated 18.6 million jobs in the U.S. — about one in six private sector jobs. Nearly 12 million Americans (or 10 percent of the workforce) are employed directly in manufacturing.
- In 2009, the average U.S. manufacturing worker earned \$70,666 annually, including pay and benefits. The average non-manufacturing worker earned \$57,993 annually.
- U.S. manufacturers are the most productive workers in the world — twice as productive as workers in the next 10 leading manufacturing economies.
- U.S. manufacturers perform half of all R&D in the nation, driving more innovation than any other sector.

Manufacturing Policy Checklist:**The United States Will Be the Best Country in the World to Headquarter a Company.**

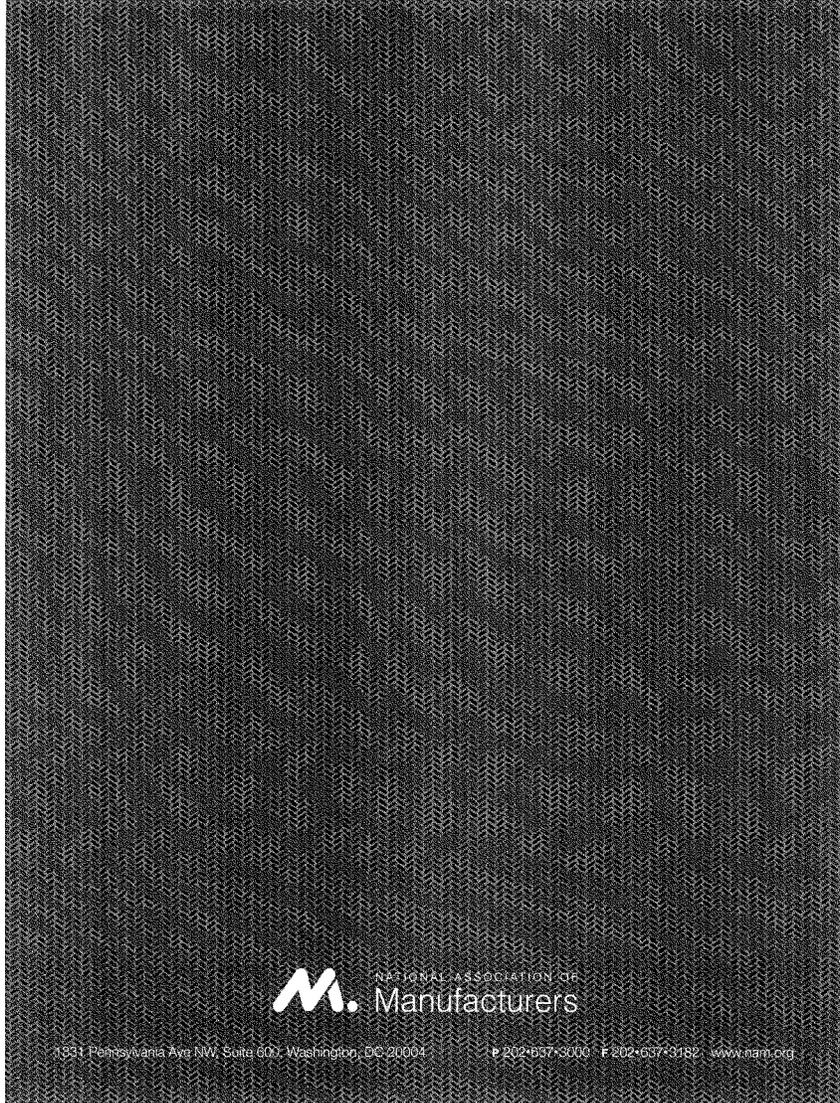
- ❑ **Create a pro-manufacturing tax climate:** Reduce the corporate tax rate to 25 percent or lower, promote fair rules for taxation of active foreign income of U.S.-based businesses, institute permanent lower tax rates for individuals and small businesses
- ❑ **Encourage a dynamic labor market:** Oppose new federal regulations that dictate rigid work rules, wages and benefits, reject regulations that introduce conflict into employer-employee relations
- ❑ **Implement a common-sense, fair approach to legal reform:** Provide clear standards for liability and justice for all parties, including specific statutes of limitations, sanctions on frivolous claims and limits on punitive damages
- ❑ **Create a regulatory environment that promotes economic growth:** Balance costs and benefits of regulation, preventing the imposition of regulatory burdens, defend the policymaking role of Congress by opposing its circumvention through regulatory rulemaking

The United States Will Be the Best Country in the World to Innovate, Performing the Bulk of a Company's Global Research and Development.

- ❑ **Enact tax provisions that will stimulate investment and recovery:** Strengthen and make permanent the R&D tax credit
- ❑ **Encourage the federal government's continued critical role in basic R&D**
- ❑ **Recognize intellectual property as one of America's competitive strengths that must be defended at all levels, domestically and globally:** Support enhanced efforts against counterfeiting through Executive Branch agencies
- ❑ **Attract the best talent from here in the United States and from the entire world**

The United States Will Be a Great Place to Manufacture, Both to Meet the Needs of the American Market and Serve as an Export Platform for the World.

- ❑ **Promote progressive international trade policy** that opens global markets and reduces regulatory and tariff barriers due to currency exchange rates, ownership restrictions and various "national champion strategies"
- ❑ **Modernize the outdated U.S. export control system** to encourage exports and strengthen national security
- ❑ **Assist exporting by small and medium-sized manufacturing** through expanded export promotion programs as well as export credit assistance for both small and large firms
- ❑ **Create a comprehensive energy strategy that embraces an "all of the above" approach to energy independence:** Encourage the production of baseload electricity, reduce dependence on foreign energy by increasing domestic supply
- ❑ **Promote policies that protect the environment,** encourage additional investment and innovation, and recognize the global scope of many environmental issues
- ❑ **Invest in infrastructure** to help manufacturers in the United States more efficiently move people, products and ideas
- ❑ **Encourage innovation** through education reform, improvement and accountability
- ❑ **Support health care reform** that drives down costs



 NATIONAL ASSOCIATION OF
Manufacturers

1331 Pennsylvania Ave NW, Suite 600, Washington, DC 20004

P 202-637-3000 F 202-637-0182 www.nam.org



**American
Iron and Steel
Institute**

1140 Connecticut Avenue, NW
Suite 705
Washington, DC 20036
Phone 202.452.7146
Fax 202.463.6573
E-mail tgibson@steel.org

www.steel.org

Thomas J. Gibson
President and Chief Executive Officer

February 23, 2010

Representative Daniel Lipinski
U.S. House of Representatives
1717 Longworth House Office Building
Washington, DC 20515

Dear Congressman Lipinski:

I write today, on behalf of the members of the American Iron and Steel Institute (AISI), to thank you for introducing legislation that would require the President to develop a quadrennial national manufacturing strategy.

The domestic steel industry strongly supports implementation of a national pro-manufacturing strategy and your bill takes an important step towards achieving this goal. As you know, in the current global economy, overall cost factors play a decisive role in how and where companies choose to invest and locate their facilities. As such, it is critical that the U.S. government address these cost factors and provide industry with a level playing field on which to compete globally. This means minimizing burdensome regulations and taxes, investing in transportation and energy infrastructure and promoting exports while enforcing trade laws, trade agreements and Customs rules.

Consequently, we appreciate that your bill creates a process for the U.S. government to develop a national manufacturing strategy and identifies key policy goals for such a strategy. We also support the creation of a Manufacturing Strategy Board consisting of individuals from the private sector, from a broad range of industries and regions, who are to provide the President with the needs of and opportunities for the nation's manufacturing sectors. The President will be well served in gaining advice and suggestions from industry experts who live and work in their respective fields each and every day.

U.S. manufacturing is critical to the future of our economy and security and we appreciate your efforts on behalf of manufacturing with the introduction of this important

*Representing steel producers
in Canada, Mexico and the United States*

legislation. We look forward to working with you on this bill and on future efforts to put in place policies that promote a strong, vibrant national manufacturing base.

Sincerely,

A handwritten signature in black ink that reads "Thomas J. Gibson". The signature is written in a cursive style with a large, prominent "T" and "G".

Thomas J. Gibson



March 1, 2010

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Jeffery H. Traver
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The Honorable Daniel Lipinski
 U.S. House of Representatives
 Washington, DC 20515

Dear Congressman Lipinski:

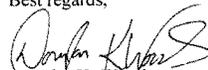
I am writing on behalf of AMT - The Association For Manufacturing Technology to applaud your leadership in introducing the National Manufacturing Strategy Act (H.R. 4692). AMT supports your efforts to strengthen America's manufacturing sector and ensure that its competitiveness remains a top priority of the U.S. government.

AMT represents U.S.-based manufacturing technology companies. Our members provide the tools that enable production of all manufactured goods. The recession has hit capital intensive industries, like ours, particularly hard; but we remain committed to forging a strong and prosperous future. Our national security and economic growth depend on it.

AMT welcomes the opportunity to work with you and your colleagues in advancing manufacturing to the top of our national agenda. We recognize that it will take a coordinated effort from all stakeholders - our government, business leaders and their workers, communities, and academia - to regain our competitive position. H.R. 4692 takes the important step of calling for a formal strategy to address our short and long term challenges. American manufacturers need a cohesive public policy plan that will encourage and support our ventures in creating innovative products, diversifying into new industries and capturing emerging markets. That is the path to worldwide leadership.

I have taken the liberty of letting AMT members in Illinois know of your efforts to rebuild and strengthen this critical sector of the U.S. economy. Thank you again for your support.

Best regards,



Douglas K. Woods
 President



March 9, 2010

The Honorable Daniel Lipinski
1717 Longworth House Office Building
Washington, DC 20515

Dear Congressman Lipinski:

On behalf of One Voice, the joint effort between the National Tooling and Machining Association (NTMA) and the Precision Metalforming Association (PMA), and our nearly 3,000 metalworking member companies, thank you for your leadership and continued efforts to address the issues facing businesses manufacturing in America. Your introduction of H.R. 4692, the National Manufacturing Strategy Act of 2010, is an important step in developing a cohesive national manufacturing strategy to support the growth and improvement of manufacturers across the country.

Manufacturing businesses employ nearly 12 million Americans and represent more than 10 percent of our entire economy, and is vital for the future of our economic and national security. In order to revitalize American manufacturing, we need our own national pro-manufacturing strategy to advance policies that will enhance U.S. industrial competitiveness. The National Manufacturing Strategy Act will put in place a process to promote policies to support a strong, vibrant national manufacturing base. It is a crucial first step to revitalize American manufacturing.

Thank you for your consideration and your leadership on behalf of the metalworking industry.

Sincerely,

William E. Gaskin
PMA President

Robert Akers
NTMA Chief Operating Officer



March 15, 2010

Marion C. Blakey
President and Chief Executive Officer

Congressman Daniel Lipinski
1717 Longworth House Office Building
Washington, DC 20515

Dear Congressman Lipinski:

Thank you for the opportunity to provide the aerospace and defense industry's comments on the National Manufacturing Strategy Act of 2010. As you may know, the Aerospace Industries Association (AIA) represents nearly 300 manufacturing companies with over 644,200 high-wage, high skilled aerospace employees across the civil aviation, space systems, and national defense. Our member companies export nearly 40 percent of their total output, and we routinely post the nation's largest manufacturing trade surplus, \$56 billion in 2009. Aerospace indirectly supports 2 million middle class jobs and 30,000 suppliers from all 50 states. The aerospace industry continues to look to the future, investing heavily in R&D, spending well more than \$100 billion over the last 15 years.

The aerospace industry commends you for the hard work and interest you have shown to the nation's manufacturing capability. We share many of the same goals outlined by your legislation including the creation of high-quality jobs; increased productivity, exports, and global competitiveness; increased domestic manufacturing capacity; and expanded research and development activities to encourage innovation. The requirement for a detailed analysis of the U.S. manufacturing base and creation of an interagency task force will certainly help improve the government's understanding of the challenges faced by this vital industry.

We also appreciate the requirement for a detailed review of tax, federal procurement, workforce development, and export control reform policies. AIA has issued a number of reports in these areas and would be pleased to work with the task force in an effort to share the perspective of the aerospace industry. With the creation of the Manufacturing Strategy Board, we hope that the President will also consider a strong representation from the aerospace sector given our role as one of the leading manufacturing industries.

Thank you again for your interest, hard work, and efforts to address the needs of our nation's manufacturing sector.

Best regards,

A handwritten signature in black ink that reads 'Marion C. Blakey'. The signature is fluid and cursive, with the first name 'Marion' being the most prominent.

Marion C. Blakey

MCB:cs



Promoting National Security Since 1919

2111 WILSON BOULEVARD, SUITE 400
ARLINGTON, VA 22201-3061
(703) 522-1820 • (703) 522-1885 FAX
WWW.NDIA.ORG

March 16, 2010

The Honorable Daniel Lipinski
1717 Longworth House Office Building
Washington, DC 20515

Dear Mr. Lipinski,

The National Defense Industrial Association (NDIA) offers its strong support for H.R. 4692, the National Manufacturing Strategy Act of 2010. NDIA, with just over 1,700 corporate members and nearly 80,000 individual members, is America's leading Defense Industry association promoting national security. As such, we understand the importance of a strong U.S. manufacturing base and the need for a national manufacturing strategy.

A vibrant industrial base is critical to U.S. national security, for both economic and materiel supply reasons. The U.S. industrial base represents a critical element of the economic power of our country. Although about 12% of total U.S. GDP is generated directly by the industrial base, it is responsible for a much larger portion, as much as one third of total GDP, when considering the commodities and services that manufacturers consume. Further, over 60% of total U.S. exports are manufactured goods and about 10% of total employment is within the industrial base.

The national security is also dependent upon the uninterrupted supply of critical materials, systems and logistics support. This is especially true for the needs of our armed forces and homeland security. To guarantee this supply we must ensure the continued viability of the production capabilities of the U.S. industrial base. We simply cannot rely on developing or potentially adversarial nations for these critical supplies.

A national manufacturing strategy, such as proposed by H.R. 4692, provides the U.S. with an understanding of critical industrial base issues and their impact on our nation. It will also provide a common direction for future government, academia and industrial programs and a focus for these organizations to leverage each other's efforts for the common good. A national manufacturing strategy will also put the U.S. on an equal strategic footing with many other countries that have had national strategic plans in place for some time.

"Publisher of National Defense Magazine"

Mr. Lipinski, NDIA strongly supports H.R. 4692, the National Manufacturing Strategy Act of 2010 and encourages all members of Congress to consider the significant contribution that such a strategy will have on the U.S. industrial base, we ask that they endorse the passage of this critical bill.

Sincerely and Respectfully,

A handwritten signature in black ink, appearing to read "Lawrence P. Farrell, Jr.", written in a cursive style.

Lawrence P. Farrell, Jr
Lieutenant General, USAF (Ret.)
President and CEO, NDIA



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2111 WILSON BOULEVARD, SUITE 400
ARLINGTON, VA 22201-3061
(703) 522-1820 • (703) 522-1885 FAX
WWW.NDIA.ORG

March 16, 2010

The Honorable Nancy Pelosi
Speaker of the House
United States House of Representatives
Washington, DC 20515

Dear Madam Speaker,

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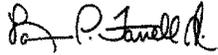
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"Publisher of National Defense Magazine"

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Lawrence P. Farrell, Jr
Lieutenant General, USAF (Ret.)
President and CEO, NDIA



Promoting National Security Since 1919

2111 WILSON BOULEVARD, SUITE 400
ARLINGTON, VA 22201-3061
(703) 522-1820 • (703) 522-1886 FAX
WWW.NDIA.ORG

March 16, 2010

The Honorable John M. Spratt, Jr.
Chairman, House Committee on the Budget
United States House of Representatives
Washington, DC 20515

Dear Mr. Chairman,

The National Defense Industrial Association (NDIA) offers its strong support for H.R. 4692, the National Manufacturing Strategy Act of 2010. NDIA, with just over 1,700 corporate members and nearly 80,000 individual members, is America's leading Defense Industry association promoting national security. As such, we understand the importance of a strong U.S. manufacturing base and the need for a national manufacturing strategy.

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"Publisher of National Defense Magazine"

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A handwritten signature in black ink, appearing to read "L. P. Farrell, Jr.", written in a cursive style.

Lawrence P. Farrell, Jr
Lieutenant General, USAF (Ret.)
President and CEO, NDIA



Promoting National Security Since 1919

2111 WILSON BOULEVARD, SUITE 400
ARLINGTON, VA 22201-3061
(703) 522-1820 • (703) 522-1885 FAX
WWW.NDIA.ORG

March 16, 2010

The Honorable Henry A. Waxman
Chairman, House Committee on Energy and Commerce
United States House of Representatives
Washington DC, 20515

Dear Mr. Chairman,

The National Defense Industrial Association (NDIA) offers its strong support for H.R. 4692, the National Manufacturing Strategy Act of 2010. NDIA, with just over 1,700 corporate members and nearly 80,000 individual members, is America's leading Defense Industry association promoting national security. As such, we understand the importance of a strong U.S. manufacturing base and the need for a national manufacturing strategy.

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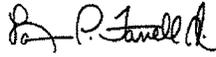
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A handwritten signature in black ink, appearing to read "Lawrence P. Farrell, Jr.", written in a cursive style.

Lawrence P. Farrell, Jr
Lieutenant General, USAF (Ret.)
President and CEO, NDIA



Brian O'Shaughnessy
Chief Co-Chair, and
Co-Chair for Manufacturing
The Capital Institute
Spring, NY

Joe Logan
Co-Chair for Agriculture
Ohio Environmental Council
Columbus, OH

Rob Baugh
Co-Chair for Labor
The Ohio Vocational Union Council
Marysville, OH

Bill Bulard, Director
A. G. & J. Co.
Lynchburg, VA

Jade Davis, Director
J. & P. Belmont Co.
Waynesville, NC

John Distich, Director
American Corn Growers Assn
Ipswich, VA

Rob Dumont, Director
TMTA
Barnstable, MA 019

Steve Frenkel, Director
Papa John's Technologies
Lexington, PA

John Hansen, Director
National Farmers Union
Lincoln, NE

Robert Johns, Director
John Consulting
Shelton, CT

Tom Nappi, Director
Telewest Strategic Task Force
Colorado Springs, CO

Peter Parthoff, Director
P&E
Cincinnati, OH

Nelson Hoffman,
Emeritus Director
SA Quality, CA

Fred Stiches,
Emeritus Chairman
Center for Constructive Politics
Fairport, NY

April 27, 2010

The Honorable Daniel Lipinski
1717 Long Worth House Office Building
Washington, D.C. 20515

OFFICE
615 Boardman Street
Sheffield, MA 01257

PHONE
413.854.2580

FAK:
413.895.5355

EMAIL
cpa@prosperousamerica.org

WEB
www.prosperousamerica.org
www.tradesforum.org

Dear Congressman Lipinski:

The Coalition for a Prosperous America is pleased to announce that we have endorsed your National Manufacturing Strategy Act H.R.4692.

The United States is the only major country that does not have an industrial strategy. Every one of our trading rivals has a plan that considers their industrial sector in terms of many factors including national security, economic growth, full employment, and geopolitical competition. The fact that the U.S. has no such plan is a key component in our economic problems.

Your National Manufacturing Strategy Act requires the creation of a process to devise national manufacturing strategy. Such a plan will consider the role of manufacturing in national security, achieving full employment, increasing global competitiveness, and other important factors. We would suggest strengthening the bill with more action steps beyond procedural items already listed, and would be pleased to work with you accordingly.

Today, too many disparate agencies lay claim to portions of what would otherwise be a national manufacturing strategy. Some in Washington call this the "silo" approach. We need government to break down these silos. Tax, trade, currency valuation, innovation, infrastructure, government procurement and other important topics should be considered in a cohesive plan.

We retooled our country to successfully fight and win World War II. We need to be able to do this again today. CPA is pleased to offer our support and thanks for your efforts.

Respectfully,

Brian O'Shaughnessy
Chief Co-Chair,
Manufacturing Co-Chair

Joe Logan
Agriculture Co-Chair

Robert Baugh
Labor Co-Chair

AMTAC

American Manufacturing Trade Action Coalition

910 16th ST NW STE 760
Washington, DC 20006

www.amtacdc.org
amtac@amtacdc.org

Telephone (202) 452-0866
Facsimile (202) 452-0739

June 8, 2010

Representative Daniel Lipinski
1717 Longworth House Office Building
Washington D.C. 20515

Dear Representative Lipinski:

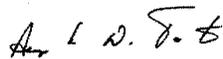
I write on behalf of the American Manufacturing Trade Action Coalition (AMTAC) endorsing H.R. 4692, the National Manufacturing Strategy Act. We thank you for introducing H.R. 4692 in an effort to reinvigorate the manufacturing sector of the U.S. economy.

Our first Secretary of Treasury, Alexander Hamilton, understood the need for a national manufacturing strategy. His "Report on Manufactures" provided President Washington, and all subsequent presidents and Congress's a blueprint for encouraging the development of a vibrant manufacturing sector in the United States. One of the great stories of the history of the United States during the 19th and 20th centuries was that of the rise of our manufacturing sector. Unfortunately, the story of U.S. based manufacturing during the last twenty or thirty years has been one of disinvestment, off-shoring and decline. And, of course, this has meant the loss of many jobs – usually good, high paying jobs. In fact, over the past ten years that United States has lost some 4 million manufacturing jobs.

H.R. 4692 would help begin the reinvigoration of the domestic manufacturing sector by directing the President to conduct a comprehensive analysis of the nation's manufacturing sector. More importantly, H.R 4692 recognizes that analysis alone will do nothing to jump-start our manufacturing sector. Therefore, it directs that the President use the information gleaned from that analysis and submit to Congress a national manufacturing strategy.

These and other provisions of the bill are salutary reforms that, if implemented, can help ignite a rebirth of the American manufacturing sector and AMTAC welcomes and supports these changes.

Sincerely,



Auggie Tantillo
Executive Director
American Manufacturing
Trade Action Coalition (AMTAC)



July 12, 2010

For more than 80 years Motorola has been committed to innovation in communications and electronics. We developed the first mobile police car radio, the first mobile backpack radio systems for World War II, the first cellular network and phone. The first words spoken from the moon were carried over Motorola equipment. We are a company born in America and now operating around the globe, drawing on the diversity of perspectives and talents from different parts of the globe.

American manufacturers, like Motorola, have long spurred economic growth and technological advancement in America and abroad. That said, we wholeheartedly support the spirit H.R. 4692, the National Manufacturing Strategy Act, sponsored by Representative Daniel Lipinski that expresses a sense of Congress that the United States Government should promote policies related to the Nation's manufacturing sector that would foster economic growth, create jobs, improve the workforce, increase productivity, and maintain and improve national security, among other improvements. Specifically, H.R. 4692 requires the President to conduct an analysis of factors affecting manufacturing competitiveness, and devise a strategy to pursue policies and improve government coordination in support of domestic manufacturing. We believe that such an analysis will foster more innovation and competitiveness for U.S. manufacturers.

We look forward to working with Representative Daniel Lipinski and his staff as this measure moves through the legislative process.

Sincerely,

A handwritten signature in black ink that reads "Xardly Pollas-Kimble".

Xardly Pollas-Kimble
Senior Director
Global Government Affairs



UNITED STATES BUSINESS AND INDUSTRY COUNCIL
FIGHTING FOR AMERICAN COMPANIES AND AMERICAN JOBS SINCE 1933

July 12, 2010

Hon. Daniel Lipinski
 1717 Longworth House Office Building
 Washington, DC 20515

Dear Rep. Lipinski:

On behalf of the 2,000 domestic manufacturing companies comprising the U.S. Business and Industry Council, I am writing to thank you for introducing H.R. 4692, the National Manufacturing Strategy Act of 2010, and to offer our strong support for this legislation. Your legislation will create the policy framework urgently needed by the nation to revitalize its dramatically weakened domestic manufacturing sector, and thereby help achieve genuine recovery from the ongoing economic crisis. We strongly urge its prompt passage by Congress and enactment into law.

Although most of Washington remains uneducated as to the centrality of domestic manufacturing for a strong economy, the paramount lesson of the current economic crisis is that the United States needs a completely new strategy to deal with the so-called globalization of our economy and to revitalize our industrial base.

For decades, most of our political and multinational business establishment has promulgated the falsehood that American prosperity could be based on borrowing, spending, and importing. Creating real wealth – the historical foundation of national success – and creating the appropriate policy environment for it were totally ignored. The U.S. housing and financial sectors were coddled (with artificially low interest rates and the abandonment of successful oversight in laws like Glass-Steagall), while manufacturing – which has been the dominant factor in domestic wealth creation since the nation industrialized – was neglected and even scorned. Typical was former Federal Reserve Chairman Alan Greenspan's remark that manufacturing is "something we were terrific at fifty years ago...essentially a nineteenth- and twentieth-century technology." A worldwide financial meltdown, painful recession, and mammoth long-term U.S. debt burden have been the inevitable results.

Your introduction of the National Manufacturing Strategy Act demonstrates convincingly that you and your cosponsors understand that restoring our nation's economic health requires *producing not consuming* our way out of recession, and that expanding our industrial output is the biggest key to success. But without swift Congressional and presidential action, the U.S. economy may deteriorate past the point of no return.

America's massive manufacturing job loss and factory closings over the past decade are well known. But even more serious signs of the sector's distress abound. Despite trillions of dollars of government stimulus spending, tax breaks, and industry bailouts, the U.S. economy has shrunk in real terms by 1.14 percent during the recession. But manufacturing output, though now higher than its recession trough, is still down 9.72 percent – and recent scholarly research indicates that even this figure

may significantly understate the devastation

In addition, industrial capacity has fallen during this recession for only the second time since the end of World War II. A new report by the U.S. Business and Industry Council shows that, in 2008, imports captured 36.23 percent of America's domestic markets for advanced manufactured goods like semiconductors, aircraft, construction equipment, machine tools, and pharmaceuticals. In 1997, the figure was only 21.36 percent.

To make matters worse, many in the political leadership class seem determined to recreate the borrowing, spending, and importing bubble that just burst so disastrously. For example, the same Wall Street firms whose crackpot lending and compensation policies, and especially their phony financial instruments, helped trigger the crisis received an enormous bailout, and the new financial regulation bill generally preserves their too-big-to-fail status and license to speculate recklessly. The Fed's loose-money policies have become free-money policies, and outright spending and lending subsidies. Finally, too much of the economic stimulus package was simply unproductive spending.

Meanwhile, here's the "help" that genuinely productive industries like manufacturing have gotten:

- A miserly auto rescue package that has helped reduce GM to its 1920s dimensions;
- Auto and appliance rebate programs that spurred the purchase of at least as many imports as domestically produced goods;
- Buy American stimulus bill provisions shot through with loopholes;
- Vague rhetoric about "green manufacturing" that ignores the need to ensure these industries remain onshore;
- and the continued pursuit of outsourcing-focused trade agreements sure to send more productive American jobs abroad.

Largely as a result of misguided policies, personal consumption is even higher today than at its dangerous pre-crisis levels, the trade deficit in the first quarter of this year grew more than 10 times faster than the economy, and the manufacturing trade deficit is up by more than 19 percent on an annual basis – with manufacturing exports continuing to grow more slowly than total goods exports despite 15 years worth of free-trade agreements touted as foreign market-opening bonanzas.

No wonder the unemployment rate remains sky high, and only the federal government and heavily subsidized sectors, like health care and education, are creating meaningful numbers of jobs.

The National Manufacturing Strategy Act will help replace this failed binge-spending and borrowing approach with a strategy aimed at promoting the production- and earnings-based prosperity that only a much stronger manufacturing sector can create.

The U.S. Business and Industry Council is especially heartened by the following features of the bill:

1. It would encourage a long overdue explicit acknowledgment by Congress of domestic manufacturing's central role in generating and preserving American prosperity, technological progress, and national security.
2. It recognizes that a sweeping and concerted federal government-wide effort is instrumental for domestic manufacturing's revival.
3. It would require several federal studies to assess domestic manufacturing's strengths and weaknesses rigorously and comprehensively. Similarly, it would foster detailed government study of manufacturing trade and off-shoring flows, and federal procurement of manufactures imports in the civilian and defense sectors. These provisions would fill much of the knowledge vacuum that currently hamstrings U.S. manufacturing policymaking. In the process, the legislation would end the monopoly currently enjoyed by outsourcing-happy multinational companies over too much crucial manufacturing and national security-related data.
4. It recognizes the scale of the challenges facing domestic manufacturing by setting a deadline of February, 2011, for publication of the first annual White House National Manufacturing Strategy blueprint.
5. It recognizes that expanding manufacturing employment requires expanding manufacturing production – that only healthy industries can create new jobs and preserve existing positions.
6. It understands that active efforts are needed to ensure that more of America's wealth and investment capital gets channeled to productive activities like manufacturing.
7. It would mandate that the Executive Branch and Congress examine the often make-or-break impact of the range of federal policies on manufacturing's fortunes.
8. It recognizes the special importance of small and medium-sized manufacturing companies, which through their production of precision parts and components in particular generate so much of America's value-added and innovation.
9. It gives these companies meaningful representation on the proposed President's Manufacturing Strategy Board.
10. It promotes follow-through and accountability in domestic manufacturing policy by requiring a Comptroller General's evaluation of the President's manufacturing strategy blueprint – including progress in implementation – and a presidential report on "the consistency of the budget with the goals and recommendations included in the blueprint.

America's economic and industrial success has always resulted first and foremost from its free-enterprise system. But government has consistently played a major role, too, from the publication of Alexander Hamilton's *Report on Manufactures* to the National Institutes of Health's support for pharmaceutical research to the Defense Department's nurturing of the aviation and information technology sectors. And this government role will surely expand as competition intensifies from foreign countries whose leaders vigorously support their industries in a host of overt and covert ways.

Your National Manufacturing Strategy Act will boost the odds of America's getting manufacturing policy right. Thank you again for introducing this vital legislation. The U.S. Business and Industry Council looks forward to working with you to help it attract the strong support and quick passage it deserves.

Sincerely,



Kevin L. Kearns
President
U.S. Business and Industry Council

**Statement of the
National Association of Manufacturers**

On

the National Manufacturing Strategy Act (H.R. 4692)

**Before the
House Energy and Commerce Subcommittee on Commerce, Trade, and Consumer
Protection**

**For the Hearing Record of
July 14, 2010**

The National Association of Manufacturers (NAM) welcomes the opportunity to submit a statement to the House Energy and Commerce Subcommittee on Commerce, Trade, and Consumer Protection for today's Subcommittee hearing on H.R. 4692, the National Manufacturing Strategy Act. The legislation makes a positive contribution to an important policy debate about the value of a comprehensive manufacturing strategy. The NAM believes such a strategy is necessary for manufacturers in the United States to succeed in the increasingly competitive global marketplace.

The NAM is the nation's largest industrial trade association, representing small and large manufacturers in every industrial sector and in all 50 states. Today, the United States is the world's largest manufacturing economy, producing 21 percent of global manufactured products. Yet with Japan (13 percent) and China (12 percent) not far behind, we cannot take our leadership for granted. The recession has taken a toll on manufacturing, particularly in terms of employment and production. A recovery does appear to be under way, but has had minimal impact so far on jobs. During the first half of 2010, manufacturing employment rose by 136,000 to its current level of 11.7 million, regaining a fraction of the 2.2 million jobs lost from December 2007 to December 2009. Similarly, manufacturing production started to recover last July, but as of May 2010 remained 10 percent below the December 2007 level.

The National Manufacturing Strategy Act

NAM members appreciate the leadership of Reps. Lipinski and Manzullo, joined by cosponsors from both parties, in advancing legislation intended to improve the ability of manufacturers in the United States to compete in the 21st century global economy.

The Manufacturing Strategy Board and Task Force established by the legislation could be helpful in coordinating governmental efforts and focusing more attention on manufacturing. While we support a regular analysis and the development of a strategy plan for manufacturing, experience tells us that the four-year window called for in the bill is too long. In 2006, few if any

policymakers could have anticipated the historic challenges that manufacturing and the broader U.S. economy would face in the subsequent four years.

The NAM believes that an effective manufacturing strategy must embrace specific action items for policymakers, not just non-binding goals and recommendations. Indeed, such concrete policy proposals formed the heart of a new policy document and call to action released in June by the NAM, a “Manufacturing Strategy for Jobs and a Competitive America.”

Manufacturing Strategy for Jobs and a Competitive America

Political and economic pressures often lead Congress to create manufacturing policy on an ad hoc basis, that is, passing legislation in response to specific problems that rise to a level of national concern. While understandable, this approach tends to produce inconsistent and conflicting policies that do too little to support U.S. manufacturing competitiveness.

The NAM believes that the policymakers should take a comprehensive, strategic approach to make the manufacturing sector more competitive, more productive and able to create even more high-paying jobs.

Such a strategy should set high goals, which we framed as:

- The United States will be the best country in the world to headquarter a company. We want companies to be based in the United States.
- The United States will be the best country in the world to innovate, performing the bulk of a company’s global research and development.
- The United States will be a great place to manufacture, both to meet the needs of the American market and serve as an export platform for the world.

To achieve these goals, the NAM’s Manufacturing Strategy then proposes specific policy changes that, taken as a whole, will allow manufacturers in the United States to compete effectively in the global marketplace. The strategy highlights the need for:

- Tax policies to bring America more closely into alignment with major manufacturing competitors
- Government investments in infrastructure and innovation
- Trade initiatives to reduce barriers and open markets to U.S. exports

These have been identified by NAM-member companies as effective policies for improving U.S. competitiveness. But the point of the NAM Manufacturing Strategy is not to present a “take it or

leave it” list to Congress, but rather to make the case for a broader, more far-reaching and strategic approach toward manufacturing.

Recommendation

In that same spirit, the NAM believes sponsors of H.R. 4692, the National Manufacturing Strategy Act, should consider provisions that encourage policy specifics as part of a comprehensive strategy. For example, Congress could create a high-level commission with Presidential appointments charged with preparing an annual list of manufacturing policy priorities, i.e., legislative proposals. Congress would consider and act on these proposals on an expedited basis.

Such an approach would aid the public’s understanding of the competitive challenges faced by manufacturing in the United States, and the kind of policies required to respond effectively to those challenges. More importantly, it would help Congress enact policies that reinforce one another to strengthen manufacturing and U.S. competitiveness. We believe that it will take this kind of comprehensive approach to maintain and improve U.S. competitive leadership in the decades ahead.

Conclusion

Manufacturing is the foundation upon which the U.S. economy is built. Nearly 12 million Americans work in the manufacturing sector, earning 22 percent more in wages and benefits than the rest of the workforce.

But U.S. leadership in manufacturing is under fire, facing its toughest competition in the nation’s history. States used to battle each other to recruit new factories and manufacturing jobs. Today, states go head-to-head against foreign governments that can use all the tools of government to support industry. Our states—and the United States—are being both outgunned and out-strategized.

H.R. 4692, the National Manufacturing Strategy Act, is a laudable sign that Congress recognizes the stakes facing manufacturing in the United States. The National Association of Manufacturers looks forward to working with the sponsors to develop the legislation further to make an effective vehicle to support manufacturing in the United States.

Responses to QFRs from the Honorable Aneesh Chopra, Associate Director for Technology at the Office of Science and Technology Policy

The Honorable Joe Barton

1. Which do you think would be a bigger benefit to our manufacturing industry, more government spending in the industry, or lowering our corporate tax rate, which is currently the second highest in the developed world?

According to the Manufacturing Institute Report [1] published in November 2008, "The Tide is Turning – An Update on Structural Cost Pressures Facing U.S. Manufacturers", the statutory corporate tax rate in the United States is 0.7% lower relative to Japan and 1.6% higher relative to Germany. But because of credits, exemptions, and deductions in the U.S. tax code, including a domestic manufacturing tax credit that reduces the corporate rate for companies manufacturing in the U.S., the effective U.S. corporate tax rate is lower than the statutory rates. OECD data show that US corporate income tax REVENUE in 2006 was 3.3% of GDP, well below the OECD average of 3.9% of GDP and below major OECD competitors such as Japan (4.7%) and South Korea (3.8%). [2] We have historically competed on innovation and we must stay focused on that path by investing in building blocks of innovation laid out by the President last September. That will be path forward to regain our competitiveness and innovation capacity. An investment in the infrastructure of innovation by the federal government would be of immense benefit to the manufacturing industry, but focus in this area has been largely ignored in the past decade. The U.S. still leads the world in scientific discoveries and engineering inventions. We need to invest in public-private partnerships to mature our technologies and manufacturing readiness to capitalize on our discoveries thereby promoting domestic production. Such efforts in Germany, through Fraunhofer institutes and the like, played a major role in its sustained and robust manufacturing sector.

2. As we all know, the private sector can create jobs, produce products, innovate, and finance more efficiently and effectively than the Federal Government. The one thing that it can't do, however, is lower trade barriers and negotiate agreements for the free flow of goods between our trading partners. Given that this is the one responsibility that only Government can perform, shouldn't it be the Government's number one priority?

The Administration's manufacturing policies are not intended to replace the private sector's role in creating jobs and manufacturing products; the Federal government, however, can help U.S. manufacturers meet the challenges and barriers that stand in the way of job creation. The Administration's "A Framework for American Manufacturing" of December 2009 targets the cost drivers affecting businesses that the Federal government can impact: skills and education, development of new technology platforms, the structure of capital markets, assistance for economic transition, investments in infrastructure, improvements in the business climate, and market access. These are all responsibilities that the government can and should perform. The Administration's Framework states that ensuring market access

and a level playing field for U.S. manufacturers by lowering trade barriers in the global marketplace is one of the seven top priorities within the Framework.

3. Our current corporate income tax rate is more than 10 points higher than that of the OECD average. How do you think that affects the decision for manufacturers to locate their headquarters and factories here in the United States?

Because much of the shift in U.S. manufacturing abroad has been to non-OECD countries, comparing the U.S. tax rate to the OECD average somewhat misplaces the real issue. Also, the corporate income tax RATE does not tell the entire story because of the numerous credits, deductions, and exemptions in the tax code, including a domestic manufacturing tax credit that reduces the corporate rate for companies manufacturing in the U.S. Corporate income tax revenues total 3.3 percent of GDP in the United States in 2006 based on OECD data, well below the 3.9 percent of GDP OECD average.[2] By investing in infrastructure that supports and encourages innovation we can regain our strength in the manufacturing sector and continue to make the United States a desirable place to manufacture products.

4. Do we need legislation or can the President implement a strategy on his own? Isn't a strategy only as effective as the implementation?

I agree that a strategy is only as effective as its implementation. Since the December 2009 release of the Framework, the President has been moving forward on implementing its policy proposals. In my testimony, I highlighted some of those policy proposals in the area of advanced manufacturing in which the Administration, through the National Science and Technology Council, has been implementing Federal policies to help U.S. manufacturers develop and adopt advanced manufacturing technologies and practices.

For the United States to maintain leadership in advanced manufacturing, the Federal government needs an ability to formulate policies and develop programs across the Federal Government in a coherent effective manner. With current Federal manufacturing R&D programs highly diffused and totaling less than \$500 million, there is a need for focused and concerted Federal effort to invest in manufacturing R&D so that the benefits of emerging technologies can be fully realized.

The President named Mr. Ron Bloom as the Senior Counselor for Manufacturing Policy, signaling the high priority placed on manufacturing and leadership needed to develop a coherent, overarching advanced manufacturing strategy and to oversee its implementation across the Federal Government. Established mechanisms in the Executive Branch, such as the National Science and Technology Council (NSTC), can provide coordination and even elements of overall strategy.

In addition, through the President's Council of Advisors on Science and Technology (PCAST), the Administration is able to gain invaluable insight from the Nation's leading scientists, engineers and innovators on Advanced Manufacturing. The PCAST subcommittee

on Advanced Manufacturing plans to release a report in the coming months outlining their findings and recommendations.

However, there are certain important elements of the President's manufacturing agenda that require congressional action. For example, the Clean Energy Manufacturing Tax Credit (48C) is a highly successful Recovery Act program to help businesses that make the components of renewable energy systems expand their facilities. The Recovery Act allocated \$2.3 billion for 48C but we had applications from qualified companies for three times that amount. The President has proposed that the funding for this program be expanded to meet this additional demand, spurring private investment and creating jobs; this proposal is currently awaiting Congressional action.

5. Can the President assemble a Manufacturing Strategy Board without legislation?

Yes, in my understanding that the President can assemble a Manufacturing Strategy Board or similar bodies without legislation. For example, President Obama designated his President's Council of Advisors on Science and Technology (PCAST), a group of non-government advisors from the private sector, to advise him on advanced manufacturing. President George W. Bush created the Manufacturing Council in the Department of Commerce.

6. How would a Manufacturing Strategy Board differ from the interagency working groups already assembled and chaired by the Department of Commerce?

I am not familiar enough with the Department of Commerce's interagency working groups to provide a definitive comparison between them and the Board envisioned by the proposed legislation. But I am aware that the Department administers the Manufacturing Council composed of not more than 25 private-sector members, and that Commerce also administers sectoral advisory committees composed of industry representatives to advise the Federal government. The Secretary of the Treasury, the Secretary of Labor, and the Secretary of Energy are ex officio members of the Council.

7. You listed "ensuring a level playing field" as one of the Obama Administration's key initiatives for improving the competitiveness of American manufacturers. Does this mean that the administration would support leveling the U.S. corporate tax with those of its OECD competitors? As I'm sure you are aware, the OECD average corporate tax is 10 points below that of the United States.

Ensuring a level playing field does not mean that the United States should be level with the OECD average in taxation and other policy matters. The United States, for example, is well below the OECD average in government taxation as a percentage of Gross Domestic Product, so leveling overall U.S. taxation to the OECD average would require raising U.S. taxes significantly, which the Administration opposes. But the Administration is committed to ensuring that U.S. manufacturers are not at a disadvantage against other nations' companies in gaining access to foreign markets, so the Framework outlines policies to: open markets abroad, enforce our existing trade agreements, promote our exports especially of small and

medium enterprises, encourage trade financing, support small business investments in emerging markets, and review our export control regulations. Our commitment to a level playing field is exemplified by the President's National Export Initiative, which encompasses a broad set of coordinated policies with the goal of doubling U.S. exports within five years.

8. You state in your testimony, "policymakers must recognize that government has a poor track record in picking winners and losers," Drawing on that knowledge, would you oppose legislation requiring the President to pick "particular industries" for special examination, as this bill does?

The Innovation Policy of the Obama Administration includes infrastructural investments that spur economy-wide growth, rather than focusing on specific sectors and companies. We have significant opportunities to strengthen our manufacturing base and create jobs by establishing the infrastructure needed to scale emerging technologies.

The promising results from our basic research are typically not mature enough for manufacturing and commercialization and are therefore considered too risky for further investment by private investors (the so-called "valley of death"). Advanced manufacturing R&D requires investments in development of materials, equipment, test procedures, manufacturing processes and standards to mature a generic technology. The results of this research provide the technology platforms – not specific products – that facilitate higher rates of innovation.

The role of the Federal government should include investing in promising platform technologies that neither a company nor an industry is willing to invest on its own due to technical and market risks. Rather than government doing it alone and absorbing all the costs, it is critical to engage industry in a public-private partnership. For instance, the ten-year history of U.S. investment and leadership in fundamental nanotechnology research has laid the crucial groundwork. There are several promising technologies emerging from our universities and government labs which need further investments in process scale-up to create new industries as well as to revitalize traditional industries.

9. What tangible benefits has the \$18 billion in R&D spending in the stimulus brought that can justify further Government spending of money we don't have?

Federal agencies have many impressive stories to tell about the tangible impacts Recovery Act R&D spending is having on the U.S. economy and the U.S. capacity to respond to the challenges we face. For just one example, I would like to refer to <http://recovery.nih.gov> for their excellent documentation of the impacts the \$10 billion National Institutes of Health (NIH) Recovery Act investment is having on jobs, economic growth, new cures, new technology, and expanded opportunities for combating disease.

10. You recommend doubling the R&D budget of three key agencies; does the administration have a recommendation for how such a massive increase in spending should be paid for?

The President's Plan for Science and Innovation proposes to double the budgets of three key science agencies (the National Science Foundation, the Department of Energy Office of Science, and the National Institute of Standards and Technology laboratories) within a fiscally responsible federal budget. The 2011 Budget currently before the Congress proposes significant increases for these agencies along a doubling trajectory, but these proposals fit within an overall President's budget that would hold nonsecurity discretionary spending flat for the next three years and would dramatically reduce projected deficits.

11. You said that government has a poor track record in picking winners and losers; is that track record any different in Government controlled R&D? How many benefits have come out of the \$18 billion spent in the stimulus?

Government spending on R&D is not a matter of the government picking winners and losers. The majority of stimulus R&D spending, for example, has been allocated competitively through peer review to the most promising, creative, and potentially transformative scientific and technical proposals. Rigorous peer review by the science and engineering community of the best ideas ensures that scientific and technical excellence is the key selection criterion, rather than government support of specific companies.

12. In your testimony you highlighted the Administration's continued support for expanding cash grants, tax credits, and loan guarantees for a variety of clean energy production technologies. Are you aware of any clean energy technologies that the Administration expects to be financially viable without taxpayer assistance within the next two years?

Financial viability is as much a product of a given technology's potential as of the private sector's prevailing attitude towards risk and credit availability. Given the private sector's current aversion to investment risk, we have chosen to invest in the clean energy technologies highlighted in this testimony to fully capture the benefits of American scientific discoveries. Without government's intervention, many technologies would be considered technically "too risky" by the private sector, and our foreign competitors, being eager to scale our technological breakthroughs, would continue to reap benefits of our scientific discoveries. There are several technologies on the horizon that, if properly nurtured, would mature in the next three to five years to a point where the private sector would be willing to invest in scaling up manufacturing and commercialization. For example, a recent ARPA-E solicitation challenged the scientific and engineering communities to develop new battery chemistries with several times the energy and power densities of present day Lithium-ion batteries. These batteries are also amenable to new ways of manufacturing that could enable U.S manufacturers to leap frog foreign competitors.

13. As I'm sure you know, the Federal government already has at least four working groups or programs created for the specific purpose of figuring out how to grow our Nation's manufacturing industry. How much benefit have these working groups had in improving our manufacturing capabilities, and do you expect that more working groups or panels would lead to more success?

As noted earlier, we don't necessarily need more working groups or panels but we need a coherent strategy to coordinate and direct infrastructural investments that close the innovation gap.

14. You testify we need to identify the cost drivers for manufacturing, including the regulation and taxation of those activities. How do we stack up to other OECD countries in those areas? How will regulatory policy related to the environment and energy affect our manufacturing base – such as cap and trade legislation? Is cost-effective manufacturing that attracts capital at odds with such policies?

The Pollution Abatement and Control (PAC) burden in the United States has come down considerably relative to a 2003 study done by the Manufacturing Institute¹. The U.S burden is only 0.7% higher than Japan's and is 0.2% higher than in Germany. The PAC burden for Asian manufacturers is steadily rising.

Although most major industry sectors spend less than 1% of sales on energy, certain energy-intensive industry sectors like chemicals, paper and pulp, metal, glass and non-metallic mineral products spend as much as 5% or more. Technological advances such as data-driven manufacturing, and real-time process controls through advanced modeling and simulation have much to offer in enabling energy efficient manufacturing. By investing in such technological solutions through public-private partnerships I am optimistic that we can unleash smart, sustainable and cost-effective manufacturing methods in the U.S. This is another example of a public-private partnership (federal, state, local governments, industry, academia, and NGOs) to mature cross-cutting technologies to unleash innovation-based domestic manufacturing.

Most important, policies that leverage private-sector investment in environment and energy and result in cost-effective technologies will give U.S. firms a competitive advantage in global markets and thereby create profits and jobs in the domestic economy.

15. How do the corporate tax levels of China, our largest global competitor, compare to the corporate tax levels imposed on manufacturers here in the U.S.?

Although the U.S corporate tax rate is about 15 percentage points higher than that of China, and the issue is being addressed by the Administration, focusing only on tax rates misses the overall tax revenue structure but more importantly misses the big picture of the essential ingredients of a robust manufacturing sector. According to the Manufacturing Institute Report [1] published in November 2008, "The Tide is Turning – An Update on Structural Cost Pressures Facing U.S. Manufacturers", the U.S. manufacturing cost burden, i.e., the structural non-production costs, dropped steadily from 31.7% in 2006 to 17.6% in 2008[1]. This narrowing of the gap is due to rising costs abroad such as wage increases in Mexico, rise in healthcare costs in Canada, and escalating tort costs in some European countries. Additionally, rising pollution control costs in China are narrowing the gap on regulatory costs relative to that country. The foreign raw cost index – essentially the trade-weighted difference of unit wage costs relative to the U.S. – has also

narrowed considerably from 22% in 2006 to 7.3% in 2008. This is due to a rise in manufacturing productivity in the U.S as well as strong wage growth in emerging markets. According to the 2008 Manufacturing Institute report, U.S commercial tort costs leveled off in 2005 and declined by 8% in 2006. Also, the overall foreign cost advantage with regard to pollution abatement has narrowed considerably.

Without adequate manufacturing infrastructure, cutting taxes alone will not reinvigorate manufacturing nor would it enable us to develop innovative next-generation products. Infrastructural investments that promote manufacturing innovation are essential to a robust manufacturing sector and countries like Germany and Japan, with tax rates comparable to ours, are clear examples of sustained manufacturing leadership through such investments. American manufacturers have historically retained a competitive edge through innovation - by investing in R&D to create products and processes first, fastest, and of higher quality than their competitors.

References

1. Jeremy A. Leonard, "The Tide is Turning – An Update on Structural Cost Pressures Facing U.S. Manufacturers," Manufacturers Alliance/MAPI and the Manufacturing Institute, November 2008.
2. OECD, Revenue Statistics, 1965-2007, 2008 Edition Table B.

Responses for the record by Scott N. Paul, Executive Director, Alliance for American Manufacturing for the hearing in the Subcommittee on Commerce, Trade, and Consumer Protection on July 14, 2010, entitled "H.R. 4692, the National Manufacturing Strategy Act of 2010."

The Honorable Joe Barton

1. Which do you think would be a bigger benefit to our manufacturing industry, more government spending in the industry, or lowering our corporate tax rate, which is currently the second highest in the developed world?

Mr. Barton, I think it will take a combination of government policies, including tax adjustments, wise public investment, more effective enforcement of our trade laws, and a focus on skills and training to truly benefit manufacturing. An adjustment to the corporate tax rate could have a positive effect, provided that it is geared towards encouraging domestic employment and production.

2. As we all know, the private sector can create jobs, produce products, innovate, and finance more efficiently and effectively than the Federal Government. The one thing that it can't do, however, is lower trade barriers and negotiate agreements for the free flow of goods between our trading partners. Given that this is the one responsibility that only Government can perform, shouldn't it be the Government's number one priority?

Mr. Barton, I agree that the federal government should focus more on trade policy, with the primary goal of balancing our enormous trade deficit, which will create jobs in America. We should encourage the Administration to actively remove barriers to competing with China in particular, because it accounts for 80 percent of the U.S. non-oil trade deficit in goods. We must stop China's currency manipulation, end its violations of intellectual property, its subsidies, and its harmful practice of dumping products in our market. Our trade deficit with China has cost America 2.4 million jobs. So, trade is definitely important, and the most important focus within trade must be to correct our relationship with China.

3. Our current corporate income tax rate is more than 10 points higher than that of the OECD average. How do you think that affects the decision for manufacturers to locate their headquarters and factories here in the United States?

Mr. Barton, tax rates are obviously one factor that manufacturers take into consideration when making decisions on production and headquarters locations. There are many other factors, including subsidies provided, wage rates, access to markets, access to efficient transportation and suppliers, access to skilled labor, and opportunities for return on investment. Simply adjusting the U.S. tax rate without making other critical changes would not be effective in revitalizing manufacturing in our nation.

4. Do we need legislation or can the President implement a strategy on his own? Isn't a strategy only as effective as the implementation?

Mr. Barton, I believe that the legislation under consideration by the House of Representatives would provide the Administration with a needed focus, much like the mandated quadrennial review drives strategic decisions within the Department of Defense. This would ensure that the Executive and Legislative branches are providing the thought and guidance necessary towards shaping a robust policy that will boost manufacturing in our nation.

5. Can the President assemble a Manufacturing Strategy Board without legislation?

Mr. Barton, I am not an expert on federal authority to assemble various boards and commissions, but I know of the existence of a Manufacturing Council at the Commerce Department, for instance. However, I think that H.R. 469 represents much-needed legislative interest in the effective coordination of manufacturing strategy within the federal bureaucracy, where it is spread over a multitude of agencies, departments, and programs.

6. How would a Manufacturing Strategy Board differ from the interagency working groups already assembled and chaired by the Department of Commerce?

Mr. Barton, I believe that the proposed Board would certainly share some of the same characteristics with existing advisory boards, but I think what makes the Board important is that it includes members from the private sector, whose voices I believe are necessary to construct a sound manufacturing strategy.

7. Do you believe that reductions in our corporate tax rate, which is the second highest in the developed world, should be integral to any policy changes addressing our manufacturing base?

Mr. Barton, I think it will take a combination of government policies, including tax adjustments, wise public investment, more effective enforcement of our trade laws, and a focus on skills and training to truly benefit manufacturing. An adjustment to the corporate tax rate could have a positive effect, provided that it is geared towards encouraging domestic employment and production.

8. In your testimony, you highlighted your support for more government spending, especially in renewables now that stimulus funds are running out. Do you feel that your members need government subsidies in order to compete? How much longer do they need subsidies?

Mr. Barton, I do believe that focused investments in clean energy manufacturing make sense. These public investments leverage private sector investment and job creation. There are numerous subsidies currently on the books through loans, preferential tax treatment, tax credits, grants, and other mechanisms designed to support an array of job-creating activities in America, including within the oil and gas industry, agriculture, and financial services. There are many private sector companies operating in Texas today, for example, creating jobs by utilizing clean energy manufacturing tax credits, loan guarantees, and other support. The United States needs a diverse, independent, and sustainable supply of energy from a variety of sources, including fossil fuels, nuclear, and renewables. You will find a variety of federal mechanisms within each of these sectors designed to promote employment and enhanced energy generation.

In your testimony, you argue for both government subsidies and preferences for domestic industries, yet at the same time support reducing trade barriers abroad. Trade barriers often include domestic purchasing mandates and government subsidies. If we are increasing trade barriers in America, how are we, the U.S., to convince foreign nations to reduce theirs?

Mr. Barton, I am not arguing for any domestic subsidies and preferences that are inconsistent with our international trade obligations. We would not be increasing barriers to trade. In fact, some of the preference programs, such as "Buy America" laws, are fully consistent with WTO obligations and have been implemented—and in fact enhanced—by the Reagan Administration and many others.

9. What would provide a greater benefit to your members: An increase in government subsidies and protections, or the removal of trade barriers abroad? Please explain.

Mr. Barton, I think that a smart combination of opening markets abroad to ensure trade that is truly free and fair, aggressively enforcing our trade laws, and using public investments to spur private capital and private sector jobs is the right way to go.

10. How important is opening new markets to expanding our manufacturing capacity? How would the implementation of the current pending trade agreements with South Korea, Panama, and Columbia affect your members?

Mr. Barton, in our view, the trade challenges we have with China trump the value of any potential gains through trade with South Korea, Panama, and Colombia. China accounts for 80 percent of our non-oil trade deficit in goods, and has more potential consumers than those three examples combined. We should aggressively work to balance trade with China. Some manufacturers have objected to the current terms of the U.S.-Korea agreement, and not to such an agreement in principal. If Korea can guarantee true reciprocity on tariffs and non-tariff barriers, and we can secure a mechanism to prevent currency manipulation by Korea, then I do think the Korean middle class makes an attractive potential market for American goods.

11. You mentioned in your testimony, the "Framework for Revitalizing American Manufacturing" released by the Obama Administration late last year: Since the administration already has the capacity to complete such a similar study, and has, then do we need a bill telling the administration how to do something it can already do?

Mr. Barton, I did mention the Framework, but I also said that it was not a robust blueprint for how to proceed with a manufacturing strategy. It was a helpful step forward, but it is not a substitute for a critical, government-wide focus on how we can make our manufacturing sector more competitive.

12. Do you believe that the financial role of the Federal Government in our manufacturing sector should be expanded, and if so, do you think that this bill could function as a step towards that?

Mr. Barton, it may be more a matter of shifting priorities than dramatically increasing government spending, but the Federal Government certainly needs to give more attention to regrowing our manufacturing sector, which just suffered its worst decade on record, even worse than the Great Depression. However, the legislation under consideration today makes no substantive changes as far as I can tell in federal expenditures.

13. Should the government be able to choose - through a National Manufacturing Strategy - which industries are productive enough to merit investment, or do you believe it would be better to let free markets decide? Please explain your answer.

Mr. Barton, this is a very good question. I believe that markets are good things, but I do not believe they are infallible. Nor do I believe that we are primarily competing against market economies. We already pick winners and losers through federal policies—oil and gas is heavily subsidized, for instance, while other forms of energy are not as generously endowed—so I do not believe it is possible, or desirable, for us to be “pure” on this point. A national manufacturing strategy should consider what industries are likely to flourish in America. Ultimately, capital is going to be attracted to such industries.

14. If the future path of American manufacturing is to be set by the Federal government, how is that different from centrally planning a significant portion of our economy?

Mr. Barton, I do not believe that this bill, or any of these efforts, contemplate the Federal Government managing the manufacturing sector. I believe that an appropriate array of policies, focused on trade, taxes, infrastructure, skills and training, and access to capital, will be critical as we move forward, and I believe that is what voters—right, left, and center—want Congress to do.

August 23, 2010

The Honorable Joe Barton
Congressman, Texas 6th District
2109 Rayburn Building
Washington, DC 20515

Dear Congressman Barton:

I appreciate your questions resulting from my July 14 testimony to the House Subcommittee on Commerce, Trade and Consumer Protection at the hearing on HR 4692, the "National Manufacturing Strategy Act of 2010."

I have provided my revised and final answers to each of your questions in the attached document, in the space directly below each of your questions. For two subjects, neither I nor NDIA can provide a specific position, and I have noted this in each case. However, for most questions, I have provided a response which represents the NDIA manufacturing Division's position.

Thank you for the opportunity to provide these views. It is my hope that many of the issues discussed at the hearing, presented in my testimony and contained in this response will be further analysed and debated by the President's Manufacturing Strategy Board in order to result in an actionable and effective National manufacturing Strategy.

Respectfully:



Mark Gordon

NDIA Manufacturing Division

The Honorable Joe Barton

1. Which do you think would be a bigger benefit to our manufacturing industry, more government spending in the industry, or lowering our corporate tax rate, which is currently the second highest in the developed world?
 - a. A National Manufacturing Strategy will provide a mechanism to assess these and other approaches relative to each other to gain consensus on implementation to benefit our manufacturing economy.

2. As we all know, the private sector can create jobs, produce products, innovate, and finance more efficiently and effectively than the Federal Government. The one thing that it can't do, however, is lower trade barriers and negotiate agreements for the free flow of goods between our trading partners. Given that this is the one responsibility that only Government can perform, shouldn't it be the Government's number one priority?
 - a. While international trade policies and agreements are an inherently governmental function, there are several other activities which should be priorities for the government, including national defense, homeland defense, and our nation's economic security. The current export control system is broken, often keeping American manufacturers from exporting goods which are commodities in Europe and the Far East. Domestic manufacturing sources for national security materiel are going out of business, producing manufacturing shortages. Manufacturing R&D is overwhelmingly supplied by the private sector, leaving little room for government influence. Finally, currency manipulation and environmental reforms prevent a level playing field across the global marketplace. Each of these issues has to be balanced in a National Strategy to provide a coherent approach for the US.

3. Our current corporate income tax rate is more than 10 points higher than that of the OECD average. How do you think that affects the decision for manufacturers to locate their headquarters and factories here in the United States?
 - a. Higher corporate tax structure is certainly a deterrent for new business, but there are many criteria considered in locating new facilities. Some of the other criteria include: access to skilled labor, supply of utilities, and transportation of raw and finished goods. A National Manufacturing Strategy will provide a mechanism to assess the relative costs and benefits to the US economy and national security.

4. Do we need legislation or can the President implement a strategy on his own? Isn't a strategy only as effective as the implementation?
 - a. The Legislation calls for the creation and publication of the President's strategy, which will be implemented through policies and further legislation. The president can implement any number of policies, but this Bill calls for a public manufacturing strategy that private industry can understand and align their investments to, in concert with government investment and policy. It also calls for industry involvement in creating the strategy which will foster buy-in and private sector industry support.

5. Can the President assemble a Manufacturing Strategy Board without legislation?
 - a. Yes, but this Bill requires each President to create a Strategy, thus requiring an updated strategy every four years. Manufacturing is such a vital element of our

National Economic Security and Defense that each Administration should be required to construct a Strategy.

6. How would a Manufacturing Strategy Board differ from the interagency working groups already assembled and chaired by the Department of Commerce?
 - a. This Manufacturing Strategy Board is formed of both government and Private sector representatives with the sole purpose of creating a National Manufacturing Strategy, after analysis and study of critical aspects of US Manufacturing. The interagency working groups are chartered to create specific joint programs which will serve to most effectively implement the strategy.

7. In your testimony, you stated that manufacturing *creates* wealth by producing something of higher value from materials or common components. However, isn't that only true if you can find someone who will buy that higher value product? Keeping that in mind, how important is it that the Federal government focus on opening free trade with our trading partners to ensure global demand for our products?
 - a. My testimony stated that the manufacturing sector *Creates* wealth, and compared this sector to the other, service based sectors, which simply *Transfers* wealth. An example of transferring wealth is the financial sector, where a service fee is assessed based upon asset management, meaning that that fee is paid whether the asset gains value or loses value. While in both cases the final value depends upon demand, the manufacturing sector adds value in a more effective and measurable fashion, and this value can be seen in the amount of export of manufactured goods in the Aerospace and Defense Sector, which represents the highest amount of export.

8. In your testimony you argue that certain economic philosophies wrongly assume that new technologies will magically and reliably appear and drive economic resources to higher-tech, higher-productivity industries. However, aside from the magic, isn't that what we've been seeing over the past two decades with the staggering private sector advances in computing, software, and high-tech manufacturing?
 - a. The law of comparative advantage assumes that technologies will appear to fill employment which was once held by sectors which have migrated off shore. In the past two decades, we have seen that high technology sectors, primarily in telecommunications, have expanded to provide employment in sectors which have migrated offshore, but these very telecommunications technologies have also increased the speed at which other sectors have been offshored, including the telecommunications sector itself. This situation can be seen by comparing the increasing amount of time that is required by economic recovery from recession, prior to 1990 and after 1990. The average time required to reach positive employment levels after a recession trough for the seven recessions 1945-1984 was about 4 months. This same employment recovery after the 1991 recession was 19 months, and the employment recovery after the 2001 recession was 30 months. This ever increasing time period signifies that the open nature of the US economy is allowing the rapid transfer of jobs overseas at a rate that is higher than new technologies can replace them. Additionally, the staggering private sector advances in computing, software, and high tech manufacturing is now occurring overseas,

where R&D facilities are expanding in order to be near the manufacturing and product development centers.

9. You testified that 70% of R&D is funded by manufacturing firms, and you advocate for more R&D funding by the Federal government. Considering the current state of the Federal budget, who would you recommend taking the resources from in order to pay for this?
 - a. NDIA does not have a position on where the resources would come from within the federal budget. My testimony explained that increased Federal Manufacturing R&D funding is needed to reverse the alarming trends of offshoring manufacturing technologies, and to better direct the R&D into sectors which assist the US economic and national security. Manufacturing R&D that is performed by the private sector does not necessarily have to benefit the US, since these private firms can quickly and easily transfer these manufacturing technologies to the global marketplace. When Federal investment is involved, particularly as part of a National Strategy, the results of the research can be retained domestically for a longer time period, thus realizing economic gains for the US. Federal investment would also leverage private sector investment.

10. You stated in your testimony that private manufacturers currently conduct 70% of R&D, and you advocate for an increase in Government funded manufacturing R&D. What do you believe would help your members, and American manufacturers more: If the government increased spending on R&D, or if it took the money it would spend on R&D, and instead gave it back to the manufacturing sector through lower corporate taxes?
 - a. NDIA does not have a position on corporate tax policy. However, R&D investment in manufacturing within the US is lower than many other high technology sectors, and national R&D intensities have been shown to be predictive of economic success. If a similar amount of money was provided to companies via lower taxes, this funding could be used for any number of purposes, increased salaries or bonuses, shareholder returns, or debt payments, and would not necessarily be invested in manufacturing or Technology R&D, which grows both the company and the US Economy. The objective of the National Manufacturing Strategy would be to determine the most effective combination of federal government policy for the manufacturing sector.

11. Do you have any concern that planning the path of our manufacturing industry from Washington might constrain growth and hurt innovation?
 - a. No, the National Manufacturing Strategy will be focused on federal government policy and actions to support US manufacturing, and will not be "picking winners and losers." A strategy such as the described in HY 4692 will provide a clear and organized plan for federal involvement. It will not constrain growth overall but it will "prune" some areas of industry. Much like a tree needs some limbs cut back so vital resources can be better supplied to the entire industrial base. This will provide an environment in which private firms will be able to clearly understand the priorities and investment areas of the federal government, so that these firms will be more likely to invest in R&D and facilities, thus spurring growth.

12. The National Association of Manufacturers (NAM) released a report in June outlining their strategy for increasing manufacturing; do you agree with their report's recommendations? Shouldn't their report be given considerable weight?
- a. The NAM Strategy contains elements of Tax Policy, Government Investments, and Trade policy, which are all key issues for manufacturing and also referenced in HR4692 as issues to be analyzed as part of the creation of a National Manufacturing Strategy.
 - b. How do you assess the White House's Economic Council report from last December providing a framework for American manufacturing?
 - i. The report "Framework for Revitalizing American Manufacturing" contained very few new initiatives, and did not cover defense manufacturing as a central theme. The Defense industrial Base is a vital element of American Manufacturing, and this report did not address the national security aspects of manufacturing, including the DoD Manufacturing Technology Program, the Diminishing Manufacturing Sources and Material Shortages Program, the DoD Reset requirement for our defense systems, or any priorities for defense manufacturing technologies. This omission is crucial for the whole of American manufacturing because of the large spin-off effect of Defense Manufacturing Technologies into commercial sectors. NDIA sees this report as an implementation report, and not a substitute for a National Manufacturing Strategy.
13. You testified that "Government bodies continue to work on policy, technology, and economic concerns for the domestic manufacturing industrial base, but they are supporting the implementation path of a strategy, not setting one."
- a. Isn't that a more appropriate role for government in a free democracy, rather than a top-down government directed central planning policy that has failed to work for most countries?
 - i. A National Manufacturing Strategy as described in HR 4692 would focus on Federal investments and policy, and not represent a central planning function with industry quotas. Additionally, there would be no limitations on private sector investment or production as a traditional central planning function. Furthermore, Japan, Germany, the United Kingdom and other democratic countries have adopted a National Manufacturing Strategy.
 - b. How would you describe the "strategy" being implemented by these government bodies? Why do you believe this bill would result in a more effective strategy for the government to implement?
 - i. The strategy would be implemented in policy and through incentives and/or direct investment in R&D or facilities by each government agency. Currently, each government agency determines their own policies and investment without necessarily considering the effect upon or possible opportunities with other agencies. A strategy would provide a top-level

vision, with clear relationship to goals and objectives which can be acted upon by each federal agency, either together or separately. In the absence of such a strategy, there may be wasteful duplication and reduction in leveraging opportunities across Federal Agencies and in partnership with industry. Industry will also be able to clearly understand the vision and priorities of the federal government, which could lead to more domestic investment in facilities or R&D.

14. Should the new strategy single out some manufacturing industries or firms for government subsidies, protectionism, or other assistance not available to others? Do you see any downside to government picking industries or firms to assist? Could taxing industry generally to assist politically-connected industries or firms actually make U.S. industry as a whole less competitive?
 - a. NDIA takes the position that this strategy should not and would not single out manufacturing firms for specific investment. However, the strategy may consider broad industries which are critical to our National Security or Economy, and may suggest incentives for strengthening those industries. Further, the Defense Production Act is an existing and effective vehicle for directing support to specific firms which have been designated by a Presidential finding as critical to national security or defense.

15. If the goal is to bolster manufacturing industries, why not focus on improving the business climate for all industries – including those that drive demand for the manufactured products? What steps should the government take to improve the business climate?
 - a. Generally, policies developed and strategies implemented for the benefit of the overall U.S. business climate will likely have some effect on the manufacturing sector. However, many intended business climate improvements fail to address the significant concerns impacting manufacturing, and particularly defense manufacturing, such as the need for R&D injects to maintain a competitive edge for US manufacturing, facility and tooling investments to maintain both productivity and price competitiveness and economic sources for power and energy. The ‘brick and mortar’ nature of manufacturing, and the often low volume demands that characterize defense manufacturing are both factors that contribute to the need for a comprehensive U.S. manufacturing strategy that specifically calls out the criticality of defense manufacturing and its pivotal role in maintaining a national security industrial base capability. Improving the business climate should be an objective of several Federal programs, and should be an objective for this Strategy as well. However, this strategy is focused on specific and concrete strategies to strength the manufacturing sector of the U.S. and thus the Strategy should be balanced between all approaches aimed at growth of manufacturing.

16. Has uncertainty regarding future tax and regulatory policy contributed to the poor business climate for manufacturers and others? If so, how should we address this?
 - a. Yes, the board members of private firms are risk adverse, and any uncertainty does affect the decisions from the board. One example of this would be the R&D tax

credit, which has to be renewed periodically. Business decisions to invest in domestic R&D projects are more difficult due to the future uncertainty of Congress passing the law authorizing the R&D tax credit.

17. Dr. Hassett testified that our corporate tax system is the biggest problem contributing to the terrible business climate in the United States. Do you agree? Why or why not? Should any new strategy include lowering corporate income taxes?
 - a. NDIA has no position on corporate tax policy. However, a National Manufacturing Strategy may include recommendations about corporate tax policy.
18. Has the recently enacted health care reform legislation worsened business climate? If so, how should we address this?
 - a. NDIA has no current position on how the Health care reform legislation has or will affect the business climate.
19. As you may know, the House of Representatives passed and the Senate is considering legislation that would create extensive new regulations relating to energy. Has the prospect of this legislation becoming law worsened the business climate? What effect would it have on manufacturers in particular? How should we address this?
 - a. Manufacturing is a high energy consumption industry. Any legislation related to energy cost, availability or management will invariably impact manufacturing. Specific effects of potential (unknown) legislation or regulation cannot be determined or commented on.
20. Has the government's failure to negotiate and ratify trade agreements with other countries for the removal of barriers to U.S. exports discouraged or impeded manufacturing in the United States? Why or why not?
 - a. Clearly, ratification of trade agreements to remove export barriers would help to increase interoperability by enabling the sharing of technology and products between the U.S. and its allies. However, NDIA has no data or other factual information to inform and opinion as to the effect that ratification of such agreements may have on manufacturing in the U.S.
21. Have excessive or unreasonable environmental or other regulations increased manufacturing costs in the United States, thereby placing U.S. manufacturers at a competitive disadvantage? Why or why not? What would you change?
 - a. Excessive environmental and OSHA regulations have increased manufacturing costs in the U.S. placing U.S. manufacturers and in some cases national security at potential risk or disadvantage. Case in point is the munitions industry, where a wide variety of components for military munitions are no longer produced in the U.S. due principally to higher manufacturing costs driven by environmental and OSHA regulations. There are a number of instances where critical munitions components are presently available only from a sole source provider, OCONUS

22. Have unreasonable union demands made U.S. manufacturers less competitive? Why or why not?
 - a. The NDLA Manufacturing division does not have a position on this issue.

23. Can the United States afford to wait several years to address these problems while it waits for the studies and plans mandated by this bill?
 - a. While it would be best to have a fair, informed and effective Manufacturing Strategy for the US at this moment, there is not one available. While the National Manufacturing Strategy is being constructed, all the current federal programs supporting manufacturing will remain in place, thus preventing any gaps in policy, practice, or investment. However, during the 18 month period which the President's Manufacturing Strategy Board will be operating, strategic goals and critical goals may be raised which can be initiated by appropriate federal agencies, thus providing benefits prior to the formal delivery of the final strategy.

HENRY A. WAXMAN, CALIFORNIA
CHAIRMAN

JOE BARTON, TEXAS
RANKING MEMBER

ONE HUNDRED ELEVENTH CONGRESS
Congress of the United States
House of Representatives
COMMITTEE ON ENERGY AND COMMERCE
2125 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515-6115

Majority (202) 225-2927
Minority (202) 225-3641

August 5, 2010

Mr. Bill Hickey
President/CEO
Lapham-Hickey Steel Co.
5500 W 73rd Street
Chicago, IL 60638

Dear Mr. Hickey:

Thank you for appearing before the Subcommittee on Commerce, Trade, and Consumer Protection on July 14, 2010, at the hearing entitled "H.R. 4692, the National Manufacturing Strategy Act of 2010."

Pursuant to the Committee's Rules, attached are written questions for the record directed to you from certain Members of the Committee. In preparing your answers, please address your response to the Member who submitted the questions.

Please provide your responses by August 19, 2010, to Earley Green, Chief Clerk, via e-mail to Earley.Green@mail.house.gov. Please contact Earley Green or Jennifer Berenholz at (202) 225-2927 if you have any questions.

Sincerely,



Henry A. Waxman
Chairman

Attachment

August 16, 2010

Congressman Barton:

I am answering your questions to the best of my ability. Many of the questions you ask are looking for simple responses. I have tried to keep my answers as simple as possible.

1. Which do you think would be a bigger benefit to our manufacturing industry, more government spending in the industry, or lowering our corporate tax rate, which is currently the second highest in the developed world?

Answer:

I am not sure what the question "more government spending in the industry" has as a reference. I believe we, as a nation, need to rebuild our national infrastructure. How and when that is accomplished will help all parts of our economy. Tax rates have to be competitive, but lower taxes will not generate revenue. Economic activity is what is needed.

2. As we all know, the private sector can create jobs, produce products, innovate, and finance more efficiently and effectively from the Federal Government. The one thing that it can't do, however, is lower trade barriers and negotiate agreements for the free flow of goods between our trading partners. Given that this is the one responsibility that only Government can perform; shouldn't it be the Government's number one priority?

Answer:

I have for eight years been trying to have the Federal Government enforce our existing trade laws. We have these massive economic imbalances with the world because the Federal Government does not enforce existing trade agreements or trade laws we have today. When will we enforce the existing trade laws to eliminate the mercantilist's policies of the Peoples Republic of China?

3. Our current corporate income tax rate is more than 10 points higher than that of the OECD average. How do you think that affects the decision for manufacturers to locate their headquarters and factories here in the United States?

Answer:

Higher U.S. Corporate tax rates, I am sure, play a role in the location of factories and headquarters in this country. These tax rates will be one reason not to base production in our country. There are other reasons such as value added taxes and transportation costs that may be much more of a factor to the placement of a manufacturing plant in the United States.

4. Do we need legislation or can the President implement a strategy on his own?
Isn't a strategy only as effective as the implementation?

Answer:

I testified on HR4692 because I have watched the destruction of the manufacturing economy over the last 15 years. I believe that HR4692 will allow a real debate on the manufacturing sector of our economy. Over this and the last two administrations we have had a strategy of neglect.

5. You advocate that we (U.S.) should "grow, mine, and manufacture" to create wealth necessary for our citizens.
- a. How would the energy "cap and trade" legislation passed by the House last year affect such capabilities if enacted into law? Would it affect your business? How?

Answer:

The "cap & trade" law passed in the House last year, if turned into law, would destroy the manufacturing economy in this country.

- b. How will the new healthcare law affect your business?

Answer:

The healthcare law will raise our company cost to provide medical coverage to our employees. These cost increases at some point will be borne by our employees in fewer benefits, higher co pay on less choice.

6. Do you have confidence the government has the capabilities to develop a strategy that will be more effective than a strategy developed by stakeholders?

Answer:

I am sure that stakeholder strategy is much different than a macro economic overview of a national manufacturing agenda.

7. In your testimony, you mentioned an example of an appointed official who held back Government resources at what seemed to be a whim. Drawing on that, do you have any concerns that placing resources for manufacturing expansion in Government hands, instead of those of the free market?

Answer:

As I understand the National Manufacturing Strategy Act the government will develop a strategy on manufacturing policy. The policy is intended to help manufacturing in this country. I do not think the act is intended to have the government take ownership of manufacturing assets.

8. As I'm sure you know, the US has the second highest corporate tax rate in the developed world. How would lowering the corporate tax rate affect your ability to expand and pursue new markets?

Answer:

Lower tax rates allow for greater capital formation. More capital would allow for all industries to create new employment opportunities.

9. You noted imbalances resulting from the outsourcing of manufacturing; are there any government tax, regulatory, or trade policies that you believe have contributed to this outsourcing.

Answer:

The number one issue on outsourcing of manufacturing goods is the lack of enforcement of current trade laws by our government. Our government structure for trade enforcement is a patchwork of different departments and agencies that have no concentrated focus or direction. China has used their currency as an export subsidy and an import tax for almost 20 years. We have trade laws that the USTR, Commerce, Treasury and the President do not enforce. Why?

10. Do you believe this our taxes rates on corporate profits and capital gains has discouraged or impeded investment in manufacturing in the United States?

Answer:

Congressman, this question is very similar to question three. The reply to question three is also appropriate to this question, however, I will expand one point, the value added tax. Most, if not all the countries we have trade with have a VAT system. The VAT system is designed to subsidize exports and tax imports. The example I use is the \$100,000 Mercedes-Benz that is put on a boat to be shipped to the USA – Daimler receives the VAT as a rebate. Today in Germany the VAT is about 20% so the auto production company in Germany gets

a check for \$20,000 to export a car that sells for \$100,000 in Germany. When Ford ships a \$30,000 Taurus to Germany they have to pay a 20% imports VAT. So the VAT has a very large effect on where you produce and how much you can export.

11. Do you believe the government's inability to pass effective trade agreements with other countries and remove trade barriers impedes the growth of U.S. manufactures?

Answer:

Yes, we must enforce trade laws.

12. Are there any excessive or unreasonable environmental or other regulations that have increased manufacturing costs in the United States, thereby placing our business at a disadvantage?

Answer:

The recent EPA action of emissions has many manufactures concerned about what direction that agency will go during this administration.

13. What impact do you believe labor union demands have had on the ability of U.S. manufacturers to stay competitive?

Answer:

Labor unions are designed to get the highest possible wage and benefit for their members. When these cost place the employer at a competitive disadvantage at some point the company will close or restructure.

14. Do you believe we need to study these problems for several more years before taking action?

Answer:

No. We can enforce our trade laws today.

15. What aspects of manufacturing does the government already study? Would the efforts mandated in this bill duplicate any of these aspects?

Answer:

I do not know the answer to this question.

16. What elements do you believe a National Manufacturing Strategy should include?

Answer:

I believe the National Manufacturing Strategy has to have an overview on why we have lost 1/3 of our manufacturing jobs in the last 10 years. How have the imbalances in our economy been created over the last decade?

17. Do you have any concerns that a National Manufacturing Strategy might include the government picking specific industries or firms to subsidize? Could taxing industry as a whole to subsidize a politically-connected few hurt U.S. manufacturing as a whole?

Answer:

Congressman, as I read this question about the government picking specific industries to subsidize and the second part about specific subsidy for politically-connected industries, I think we already have this occurring in this country. We have specific subsidies for farming, ranchers, energy production and exploration, and housing, just to name a few.

18. If the Strategy included specific preferences or protection for domestic industry, do you have any concerns that this could prompt other countries to retaliate against U.S. exports, or increase their own protectionist subsidies?

Answer:

If the strategy included preferences or protection for domestic industries and, we as a country, decided that was in the best interest of our nation then we will have had a debate on the issue. Once that decision is made how other countries react will be a part of the reality of the world economic order today.

Bill Hickey

HENRY A. WAXMAN, CALIFORNIA
CHAIRMAN

JOE BARTON, TEXAS
RANKING MEMBER

ONE HUNDRED ELEVENTH CONGRESS
Congress of the United States
House of Representatives
COMMITTEE ON ENERGY AND COMMERCE
2125 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515-6115

Majority (202) 225-2927
Minority (202) 225-3841

August 5, 2010

Mr. Owen E. Herrstadt
Director of Trade and Globalization
International Association of Machinists & Aerospace Workers
9000 Machinists Place
Upper Marlboro, MD 20772

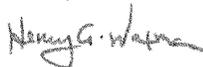
Dear Mr. Herrstadt:

Thank you for appearing before the Subcommittee on Commerce, Trade, and Consumer Protection on July 14, 2010, at the hearing entitled "H.R. 4692, the National Manufacturing Strategy Act of 2010."

Pursuant to the Committee's Rules, attached are written questions for the record directed to you from certain Members of the Committee. In preparing your answers, please address your response to the Member who submitted the questions.

Please provide your responses by August 19, 2010, to Earley Green, Chief Clerk, via e-mail to Earley.Green@mail.house.gov. Please contact Earley Green or Jennifer Berenholz at (202) 225-2927 if you have any questions.

Sincerely,



Henry A. Waxman
Chairman

Attachment

The Honorable Joe Barton

1. Which do you think would be a bigger benefit to our manufacturing industry, more government spending in the industry, or lowering our corporate tax rate, which is currently the second highest in the developed world?
You would have to be more specific about what kinds of government spending in the industry you are referencing. I am not an expert on corporate taxation nor on taxation of corporation's in other countries.
2. As we all know, the private sector can create jobs, produce products, innovate, and finance more efficiently and effectively than the Federal Government. The one thing that it can't do, however, is lower trade barriers and negotiate agreements for the free flow of goods between our trading partners. Given that this is the one responsibility that only Government can perform, shouldn't it be the Government's number one priority?
I believe that we can have several priorities.
3. Our current corporate income tax rate is more than 10 points higher than that of the OECD average. How do you think that affects the decision for manufacturers to locate their headquarters and factories here in the United States?
That would depend, I suppose, on the corporation, as well other factors, which would influence their decision.
4. Do we need legislation or can the President implement a strategy on his own? Isn't a strategy only as effective as the implementation?
It depends on what strategy is for adoption and how it is implemented.
5. Can the President assemble a Manufacturing Strategy Board without legislation?
Not certain, given the objectives included in the Lipinski proposal, but that may be best answered by the Congressman.
6. How would a Manufacturing Strategy Board differ from the interagency working groups already assembled and chaired by the Department of Commerce?
It appears that under the proposed legislation, it would take on a more institutionalized form, among other things. It would also, I believe, focus on a more comprehensive examination of manufacturing.
7. You testified, "While there are many reasons for the decline in manufacturing, one of the fundamental reasons is that the U.S. does not have a national manufacturing strategy and has not established a framework for creating one." Do you have any evidence to support this assertion?
Well, one might simply look at the decline in manufacturing, especially in such industries as shipbuilding today.
8. You cite approvingly the manufacturing strategies of China and European countries. Can't China's success in export manufacturing be attributed more to other causes, such as its relatively low labor costs and currency practices?

I never meant to imply in any way that I approved their actual strategies, especially in terms of China's labor rights and currency manipulation, only to note that other countries that we compete with have adopted manufacturing strategies. The U.S. should develop its own strategy.

9. You stated your support for the national manufacturing strategies of China and Europe. Would you still support such policies if it meant Chinese like labor conditions, and European levels of unemployment?
 Again, I do not believe that I stated support for all of the strategies of other countries especially China, particularly concerning its refusal to honor basic fundamental human rights (including labor rights) like the right to freedom of association and its unacceptable labor conditions. It would be helpful if you directed me to my testimony that gave you any other impression of my position so that I can even better clarify. As stated above, the U.S. should develop its own strategy.
10. Your testimony implies that successful manufacturing strategies include the use of sophisticated offset policies to increase exports, yet you also testify that the United States should attempt to curtail the use of offsets by other countries. How can we implement offset policies in the here while simultaneously trying to curtail their use by abroad?
 I meant that other countries use them as an example of how they have developed overall strategies—not that we should necessarily adopt them as well.
11. You appear to support singling out some manufacturing industries or firms for government subsidies, protectionism, or other assistance not available to others. What kind of track record does the Government have picking winners and losers?
 I think we need to examine our overall manufacturing sector and then strategically determine in working with all of the stakeholders how we can best serve U.S. workers and our national interest.
12. Do you see any downside to government picking specific industries or firms to assist? Could taxing industry generally to assist politically-connected industries or firms actually make U.S. industry as a whole less competitive?
 I am not certain as to what you are specifically referencing. I believe the Lipinsky proposal would bring together stakeholders to discuss specific manufacturing strategies.
13. If the goal is to bolster manufacturing industries, why not focus on improving the business climate for all industries? What steps should the government take to improve the business climate, other than those you mention in your testimony?
 I think these are the types of issues that could be contemplated in the Lipinsky proposal if it is implemented.
14. Has uncertainty regarding future tax and regulatory policy contributed to the poor business climate for manufacturers and others? If so, how should we address this?
 Again, I am not an expert in corporate taxation nor am I certain as to what you mean by

15. Dr. Hassett testified that our corporate tax system is the biggest problem contributing to the terrible business climate in the United States. Do you agree? Why or why not? Should any new strategy include lowering corporate income taxes?
 Again, I am not an expert on corporate taxation. I refer you to the work of many other groups, such as the Economic Policy Institute which, I believe, will provide greater insight.
16. As you may know, the House of Representatives passed, and the Senate is considering, legislation that would create extensive new regulations relating to energy. Has the prospect of this legislation becoming law worsened the business climate? What effect would it have on manufacturers in particular? How should we address this?
 I am not familiar in detail with this legislation.
17. Has the government's failure to negotiate and ratify trade agreements with other countries to remove barriers to U.S. exports discouraged or impeded manufacturing in the United States? Why or why not?
 You would have to be more specific in terms of the exports, trade agreements, and countries you reference. I believe the AFL-CIO has submitted comments on all of the pending trade agreements and their potential impact on U.S. workers. The UAW and others have also voiced their concerns over the impact that the currently proposed KORUS would have on the U.S. auto industry.
18. Your testimony advocates fair trade agreements. How do these "fair" trade agreements differ from free trade agreements, and can you list any successful examples of such agreements. They differ significantly and I believe that Congressman Michaud's trade reform bill indicates these differences, including reform of the investor to state dispute mechanism, inclusion of ILO core labor standards, enforcement, etc.
19. Are there any excessive or unreasonable environmental or other regulations that have increased manufacturing costs in the United States, therefore placing our business at a disadvantage?
 I am not an expert on environmental regulations.
20. What impact do you believe labor union demands have had on the ability of U.S. manufacturers to stay competitive?
 Please be more specific.
21. How has regulatory and taxation uncertainty contributed to the poor business climate for manufacturing? What can be done to address this?
 Please see my response to Question 14—it appears to be a similar question.
22. How has the recently enacted health care reform legislation affected the business climate, in particular the manufacturing industry?
 I am not an expert on the health care reform legislation and its impact on the manufacturing industry.