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HEARING ON AMERICAN MANUFACTURING AND JOB REPATRIATION

Mr. Chairman, Mr. Ranking Member, and members of the subcommittee, thank you for conducting this important hearing on American manufacturing and job repatriation, and thank you also for inviting me to testify. I'm honored to represent the Alliance for American Manufacturing.

I will describe the challenges that I see facing efforts to reshore or repatriate manufacturing jobs, provide an overview of possible policy remedies, and conclude by focusing on a few concrete steps that Congress could take to support these efforts.

This is an exciting time for American manufacturing and public policy. First, manufacturing has shown a level of job growth since January 2010 that is longer and deeper than anytime since the period of 1993 to 1995. More than 400,000 manufacturing jobs have been added, the bulk of those in the automotive and durable goods sectors.

Second, there are efforts well underway in the private and public sectors to grow American manufacturing and seek to reshore jobs after decades of indifference or in some cases outright hostility towards industry and encouraging young people to seek careers in manufacturing.

Third, these efforts are gaining political traction. President Obama put manufacturing front and center of his most recent State of the Union address. The leading Republican presidential candidates have focused attention on manufacturing and the role of China in our economy. More research institutions--public and private--are examining manufacturing issues than at any time since the early 1980s.

But, a renaissance in American manufacturing is far from certain. We've regained only a fraction of lost factory jobs, our trade deficit with China in particular is growing and not shrinking, and capacity utilization is still well below pre-recession levels and historic norms.

American manufacturing is coming out of its worst decade ever. In the 2000s, we lost one-third of all jobs in the sector (5.5 million), nearly quadrupled our trade deficit in manufactured goods, closed more than 50,000 factories, and recorded a drop in industrial output for the first time. While America suffered a recession beginning in 2008, manufacturing experienced an entire decade of sustained losses, at a far faster clip than any other time in our history.

What caused this decay? A number of factors contributed.

1. Opening trade with China dramatically altered trade flows and global supply chains, aided by plenty of Chinese government subsidies, unfair trade practices, low labor and environmental standards, and a grossly undervalued currency.

2. Financial deregulation in the late 1990s made Wall Street the master of manufacturing rather than merely a provider of capital. Quarterly earnings pressures and long-term growth strategies are often mutually exclusive in the world of capital-intensive manufacturing.

3. A surge in automation, robotics, and productivity all meant that it took fewer factory workers to produce the same amount of output, though work by economists such as Michael Mandel and Susan Houseman has shown how overblown the productivity factor has been in reducing employment.

4. The strong dollar policy adopted by the Clinton Administration and carried forward by the Bush Administration made our goods less globally competitive.

5. Virtually all of our economic policies (taxes, trade agreements) and emphasis on education (college instead of vocational training) encouraged shifts of production offshore.

What few of us appreciate is that while some changes (low-wage competition, automation, productivity) inevitably lead to lower employment in industry, it doesn't necessarily follow that we should give up on industry altogether. Germany, a nation with a thick regulatory environment, universal health care, high wages ($48/hour compared to $32/hour US in manufacturing), and relatively strong industrial unions, has more than 20 percent of its economy in manufacturing and a balanced trade account with China (compared to the US-China annual deficit of $295 billion). While manufacturing employment and output have declined as a percentage of the overall economy in Germany, few in Germany see a future without manufacturing--or public policies to support it.

Casting the political equation aside, the manufacturing policy debate has ignited again in the United States for two simple reasons.

The first was desperation to create jobs in the absence of a housing or tech sector bubble. Policymakers on the left and right have tried everything else, and by that I mean everything: steering our youth to four-year colleges, focusing on innovation, building up domestic energy capabilities, relying on Wall Street, expanding homeownership, low interest rates, and more. None of it has worked. Why not return to America's core competency? We do know how to make stuff.

The second was that there was a reasonable prospect for success. Government support for Chrysler and General Motors appeared to work: consumers have better choices, employment in the auto sector is growing (with 160,000 more jobs expected to be added through 2015), and the industry even agreed to a 54.5 mpg fuel economy standard and embraced electric vehicles, dramatically reversing their efforts to kill these. Manufacturing employment overall has increased by well over 400,000 since 2010, and forward-looking indexes have been positive for nearly three years now. Consulting firms are extolling the virtues of "reshoring" work from overseas, though at far lower wages.

But the auto rescue was what I call "Emergency Room" manufacturing policy. President Obama and his team didn't do a perfect job, but the alternatives were far more grim.

Since then, the President has from time to time highlighted manufacturing proposals on workforce development and advanced research, and his Administration has adequately enforced trade laws, but he has yet to do three important things.

First, leverage our market power to compel China to cease its mercantilism, which, Paul Krugman notes, inflates dangerous global imbalances and dampens economic growth around the world. Krugman--who was awarded a Nobel in economics for his free trade theory--is no protectionist. The fact that President Obama has not even named China as a "currency manipulator" indicates just how far we have to go.

Second, put real money behind his words. Giving students the tools they need to enter the manufacturing workforce will take money, which instead is spent preparing them for standardized tests and a four-year college degree. Until technical training is adequately resourced and structured, our system will not even be on par with programs in mid-tier industrialized nations.

Third, restate the big idea. In 2009, the President repeatedly said that we had to make fundamental shifts in our economy, to transform ourselves from a nation that buys too much and produces too little into a nation more in balance. Manufacturing, of course, is one of the ways in which we achieve such balance. And, it's a way to restore our middle class.

Think of what we could accomplish if we thoughtfully rebuilt our nation's manufacturing base and public policies into a combination that could more successfully compete with manufacturing powerhouses like Germany and China.

The irony is that from 1791 to 1945, we had a dominant manufacturing policy. It was made possible by a national industrial policy that was framed around public investment (the Erie Canal, for instance), tariffs (to support new or strategic industries), education (e.g., the Land Grant Act) and research. Around 1900, the United States began to lead the world in manufacturing output, a title we only relinquished to China within the past two years.

Nearly all industrialized and industrializing nations have robust, modern industrial policies, which vary widely from place to place. What policies would rebuild sustainable manufacturing in our nation in the 21st century? We can't simply drop the German model into our economy. The mercantilism of China is destructive to other nations. The Hamiltonian industrial policy we employed earlier in our history is outdated. What we need now is a new, uniquely American strategy, that builds on our remaining strengths.

While the debate about the role of government in the private sector is a legitimate one, there are very sound reasons for aggressive public policy to support manufacturing. No matter how innovative or competitive individual manufacturers may be, there are some problems they simply cannot solve on their own. Jared Bernstein of the Center for Budget and Policy Priorities summarizes it this way:

* Research and development can be expensive and hard to capture profits.
* No single firm could possibly coordinate national projects like the smart electrical grid, the Internet, or interstate transportation of goods.
* Firms often need assistance in applying academic innovations to the production process.
* Manufacturers often face barriers to accessing credit for entry, expansion, and innovation.
* Manufacturers need assistance in exporting as well as pushing back against unfair trade practices.

Keeping those points in mind, here are some possible strategies:

* We need to identify strategic industries to support. The automotive sector, and in particular clean energy vehicles, is an obvious candidate. Add to that solar, wind, and other renewable energy manufacturing, which will be in growing demand. In an age of automation, it is quite possible to recapture high-tech manufacturing, from semiconductors to tablet production. Aerospace and national-security related industries must be on the list. Emerging technologies like nano and bio, as well as opto-electronics also make sense. Finally, industries where proximity to market is critical: heavy materials like steel and made-to-order consumer goods.

* Next, we need to identify the right policies. The State of the Union was helpful in that it outlined some of the basic issues, such as tax policy. Tax credits for hiring, producing, and innovating domestically are a good start.

* While 154 nations have a value-added tax (VAT) rebatable for exports, the United States does not. It is worth exploring what sort of tax changes make sense to incentivize exports rather than imports.

* There must be incentives to make capital more patient, as it is in Germany. Requiring a longer holding of assets to receive preferential tax treatment is one way to do this.

* Our system of vocational education must be rebuilt from the bottom up, and provide a seamless period of skills development and training through high school, vocational school, and apprenticeship. Young men and women should be encouraged to fill manufacturing jobs (where demographic shifts will create millions of openings over the next five years) rather than fleeing them.

* Our trade policy must become more results-oriented and less philosophical. Our trade deficit matters as much as the rest of our debt, but it receives scant attention. Penalizing China's currency manipulation is a good start. Such a move would empower Chinese consumers, raise the wages of Chinese workers, and make American production more competitive. Moreover, labor rights must be treated at least as well as investor and corporate rights, and not as an afterthought. Boosting the wages of workers overseas will, among other things, permit them to buy more of our goods.

* We must develop a national economic development model that is built around the idea of competitive clusters to avoid a state vs. state race to the bottom, which is our status quo.

* Public investment is critically important to build up a 21st century system of transportation and energy transmission that reduces pollutants and increases efficiency. This investment must include preferences for American made steel, manufactured goods, and services to prevent leakage of tax dollars overseas.

* Rebuilding the "industrial commons," a system of public-private support for basic scientific research and applied research, will required a renewed allocation of resources.

There are meta-trends and other forces that will have a profound impact on whether or not these strategies can be successful. First, rising costs in China are beginning to drive production to lower cost locations like Vietnam and Cambodia, but also to more automated systems in the United States. Second, the natural extension of the localization movement in food is making its way to consumer goods. We're already seeing urban manufacturing movements sprout up in places like San Francisco and New York City.

This new manufacturing economy won't look like our old one. Apart from what we already have in the automotive, commodity-based production, shipbuilding, and aerospace sectors, we're unlikely to see anything like the old Fordist system, with massive factories each employing thousands of workers. If Apple does produce iPads in America, the factory will be highly automated, though staffed by well-paid engineers and technical professionals. Hundreds of thousands of Foxconn workers would be replaced by perhaps only hundreds of engineers.

The advent of personalized manufacturing in the form of three-dimensional printing devices will also have some impact in dampening growth in manufacturing employment, unless we make 3D printing a strategic industry to grow in our nation, as well.

And the attitudes of business professionals must be dramatically altered. MBAs simply aren't trained to think about manufacturing in America. Nor are venture capitalists. Until that mindset is changed, their bias will continue to be making things elsewhere. Just as outsourcing was a trendy business model for the past two decades, let's hope insourcing gains as much traction. It's helpful to have the President invite business leaders to the White House who are committed to making things in America. It's also helpful to have ABC News broadcast "Made in America" segments to millions of viewers. But until the incentives change, publicity alone will create no more than a handful of jobs.

Finally, we must resist the idea that wages of manufacturing workers must be slashed for us to be competitive. A nation with factory wages closer to Mississippi than Michigan will be a poor, debt-ridden nation. Making jobs good ones must be a priority. Investing in the worker must be the strategy, not the obstacle. Germany pays its autoworkers double what ours make. Labor is an easy scapegoat, but the truth says it simply isn't so.

In ten years, it might be possible to push the percentage of our economic output in manufacturing from just under 12 percent, where it stand today, to 15 or even 20 percent. As urban manufacturing blossoms, it is equally possible that the creative class wants to reconnect with production, which would give it an image boost. It's likely that new factories will be clean, energy efficient, and highly automated, meaning that the old smokestack image may no longer apply to most American production.

I want to conclude with a few comments on issues of particular relevance to the subcommittee.

I know many on the subcommittee, including Mr. Fattah, strongly support the work of the Hollings Manufacturing Extension Partnership (MEP) program. I join you. The MEP Make it in America Initiative and its supplier scouting program help to maximize the job-creating impact of tax dollars. The MEPs also provide support for those challenges that are simply impossible for individual firms to solve on their own. The MEP program deserves priority consideration for enhanced resources.

Many of you on the subcommittee also support more aggressive trade enforcement activities, particular when it comes to subsidies, dumping, and unfair trade practices encouraged by China and other trade partners. While initiatives to boost American exports are deserving of support, please do not ignore imports. The vast majority of domestic manufacturing firms face stiff competition from overseas. They expect that. But what they also expect is for the government to stop unfair trade practices that cost American jobs, market share, and profits. Too often, that doesn't happen. No other industrialized nation permits trade deficits as large as ours, nor do they permit China to flaunt the rules. America cannot continue to be the world's dumping ground for excess Chinese production.

Mr. Chairman, I also want to acknowledge your "Bring Jobs Back to America" legislation, H.R. 516, and express my strong support for it. I commend you and your colleagues for including some of its provisions in the Fiscal Year 2012 appropriations bill that was signed into law, and I hope that they will be aggressively implemented.

Finally, many members of the subcommittee, including Mr. Wolf and Mr. Fattah, have weighed in on various trade cases filed by the private sector in the past, including Chinese imports of oil country tubular goods (OCTG) in 2009. I want to express my sincere gratitude for your initiative. Enforcing our nation's trade laws works. This particular sector of the steel industry is now thriving in America. Put simply, that would not have been the case without a trade enforcement action.

Mr. Chairman, the stakes for manufacturing are high. But the stakes for America and our future are even higher. Our children will live with the consequences of inaction, particular with a weaker American manufacturing base and a China that is stronger thanks to our own neglect: a monstrous trade and public debt to China; an expensive strategic competition in the Pacific, in space and around the developing world, and the validation of a dangerous idea that a nation can be successful through a combination of censorship, brutality and mercantilism, as opposed to the American ideal of democracy, human rights and a rules-based, open economy.

The developing world -- representing the vast majority of the world's inhabitants-- is looking to see who wins. In the United States, it sees a fractured political system, a slow-growth economy and enormous public, private and trade debts. In China, it sees the opposite. This subcommittee plays a critical role in ensuring the strength of our manufacturing base and in holding our trade partners, most especially China, to account for gross violations of trade obligations that are robbing America of jobs and wealth. Thank you.