Testimony of
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before the
Senate Banking, Housing and Urban Affairs Committee's
Subcommittee on Economic Policy
May 13, 2009
Washington, D.C.

Mr. Chairman. Members of the Committee. It is indeed a pleasure to appear before you on an issue that is vital not only to the future of the members of my union, but to the nation. I'm Leo Gerard, president of the union, commonly known as the Steelworkers Union, which represents more than 1.2 million active and retired members.

While workers in the steel sector are represented by our union, workers we are extremely proud of, the full name of our union is the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union. Members of our union make products ranging from steel to aluminum to cement to tires to glass to many, many other products. They work in mines, in smelters, in oil refineries and many other industrial operations. But, we also represent nurses, bus drivers, bank workers and university professors who are supported in no small measure by domestic manufacturing. We are the largest industrial union in North America.

Your hearing comes at a very important time. The economic meltdown occurring in the U.S. and the world economy has devastated our manufacturing sector. Capacity utilization in many of our sectors is at levels unseen since the Great Depression. Many of the sectors in which my members work are on the front lines of this economic collapse. When retailers start cutting back, members of the Steelworkers who work in box making plants feel the cutbacks as producers buy fewer boxes to ship their products. When commerce slows down, the workers in my union who make tires see orders decline as truckers drive fewer miles and buy fewer tires. The list goes on.

Well over 100,000 of the members of my union have either been laid off or face reduced hours as a result of the economic crisis. Their employers have seen orders dry up, and they've seen credit dry up as well. Too many of my members were hit by the subprime crisis not only in terms of the mortgages they took out, but also by the cascading problems that blew the lid off the economy. The harm to working families has been enormous.

Shuttered factories and shattered dreams are what many of my members and, indeed, workers in the manufacturing sector all across this great country face. But, while these problems accelerated at warp speed when the subprime crisis spiraled out of control, the manufacturing sector has been decimated by acts of omission *and* commission by prior Administrations. There's more than enough blame to go around. Rather than looking backward, however, I'd like to focus my comments today on where we are, and where I think we need to go.

Mr. Chairman, the first question you raised in your letter of invitation is the most important question: Why should Congress care about manufacturing? When I received your invitation, quite frankly, my view was that this is a question that, in past years, would never even need to be asked. But today, after more than 20 years of neglect and even adverse policy pursuits, it's clear to me that, indeed, this is a question that needs to be asked and answered.

Regrettably, we may be on the only nation on earth that actually has to ask this question.

Over the last 20 years, or so, we have seen policy makers look to the information economy as the key to our future. Then the Internet bubble burst and they realized that not every student will be able to become a software programmer or Internet web site developer. We have seen so-called "experts" say that the future is the service economy; that we provide the best and most competitive services in the world. Then, the economy came crashing down and the financial services sector finds itself on the wrong side of that optimism as we are going through fundamental questioning as to what the future of the financial sector should be and as the top management of our "best and brightest" financial institutions find themselves ridiculed for their excesses.

Manufacturing is a source of strength. Economic strength. Community strength. And, indeed, military strength.

Manufacturing provides millions of jobs in our economy. American manufacturing, prior to the downturn, directly employed 14 million Americans and accounts for 8 million additional jobs in other sectors. It is the single largest economic sector contributing to our economy. Our manufacturing sector is responsible for two-thirds of research and development investment in the U.S. and almost eighty percent of all patents that have been filed come from the sector. Manufacturing is a tremendous engine of growth.

Manufacturing is also key to community strength. Unlike service sector jobs that can migrate virtually anywhere, the enormous investments in plant and equipment that many of manufacturers make ensure that these companies are the bedrock of their communities. Michigan is known for autos. Pennsylvania for steel. Ohio for auto parts, glass and rubber. The list goes on. These industries, these companies, have helped shape the communities they operate in and the lives of the workers that are employed there. Generations of workers have followed previous generations in working at these great industrial companies. They've created millions and millions of family and community supporting jobs. Manufacturing jobs pay, 40 percent or more in wages than other jobs in our economy.

America's standing in the world is, first and foremost, a tribute to our values of freedom and democracy. America is still a great beacon of hope.

But, America's values and vision have been backed up by our military might. Our willingness to stand up to injustice. Manufacturing is key to our military strength. In the first and second world wars, our ability to supply our troops and, often, our allies, with the weapons and the wherewithal to defeat aggression was the deciding factor. On today's battlefields, our high tech weaponry has been the deciding factor in many battles. Aggressors know that the power of our military is unmatched.

But all of this is increasingly at risk.   Our economic strength has been eroded by those who have blindly worshiped at the altar of free trade and have traded away our manufacturing base. These free trade ideologues measure the success of our trade policies by the number of agreements they can negotiate, rather than the results they produce for our people.

Our market has been flooded, all too often, with products resulting from unfair and predatory trade practices.   Subsidies. Preferential government policies. Mercantilist development strategies.

The result has been factory after factory that have either downsized, or shut completely. The steel crisis of the late 90's and early part of this decade left the steel sector devastated. Today's auto crisis will potentially lead to dozens of assembly plants and suppliers shutting down.

The result has been not only a continuing decline in manufacturing jobs here in America, but increased off-shoring and outsourcing of production.   While many once viewed the production of high technology products as a bright star on the economic horizon, we now run a trade deficit in advanced technology products of tens of billions of dollars.   And, our overall trade deficit in goods has grown year-after-year and is a significant drag on economic growth and a sign of increasing economic weakness and dependence.   We're buying billions more in products from overseas than we make here at home, driving up our trade deficit and our borrowing costs. China, for example, now holds hundreds of billions of U.S. dollar-denominated securities.

More and more companies are setting up research and development facilities overseas to be closer to the production operations they've set up abroad. As that happens, the lifeblood of our economy continually drains away.

And, if that weren't enough, our national strength, our military security, is increasingly at risk. We no longer have the domestic capacity to make all the ammunition for our troops and law enforcement needs.   Replacement parts for the military are harder to come by as the skills necessary to service older equipment – the machining and other skills – are dwindling. The military testified that our nation was at risk of having to buy propellant for the hellfire missile from China because there was no longer a domestic supplier.   And now, we find that the globalization of the supply chain for computer equipment may have contributed to incursions into our defense contractors and government computer systems.

So, does manufacturing matter?   The question, once again, shouldn't even have to be asked. But, yes, manufacturing matters and it's time that we look at policies to address the challenges confronting this vital sector.

While some small manufacturers may be able to rely on self-generated cash to be able to fund investments in existing operations as well as new plant and equipment, that is far from the norm. Many of the investments required to maintain and increase operations require credit to fuel the company's ongoing and future needs. Credit is the lifeblood of the manufacturing sector and when credit dries up or becomes prohibitively expensive, its impact can be felt throughout the economy.

Look at the collateral damage that has hit the manufacturing sector from the subprime crisis. As banks looked to shore up their balance sheets to address declining asset values in the home mortgage portfolios, they began to limit credit to other sectors, like manufacturing. As credit availability and terms got worse, operations began to suffer. First consumers – both commercial and private – felt the pain, then the shockwave reverberated throughout the economy.

Manufacturers saw credit terms get stricter and had to tighten their belts. Their suppliers felt the impact. The entire supply chain started to suffer. One only has to remember that auto parts suppliers were looking to guarantee $15 billion in receivables they had with the Big Three as a way to protect their operations.

There is a clear correlation between credit availability and terms, and the growth of manufacturing and its employment levels.

There are more members of my union whose jobs are affected by the current crisis in the auto industry than are in the United Auto Workers union. Virtually every car has six pieces of glass, five tires, hundreds of pounds of steel and other metal and many other parts and components that are produced by the members of my union.

So, when the auto companies sneeze, my members are at risk of getting pneumonia. When construction slows, there is less demand for steel, for cement, for glass and many other commodities which my members produce.

Supply chains are intricately intertwined with the production of end products. So, when credit restrictions hit at any level – ordinary consumers or commercial entities – the impact can be devastating.

Right now, credit is still exceptionally tight for manufacturers. I've talked to companies that have had to cut back dramatically on spending plans because they can't afford credit, and if they can find it, at rates approaching 18 and 20 percent for some. Some employers have told me that the credit markets, when they open, have been doing so only for very short windows. Company after company has seen their credit ratings downgraded thereby forcing their borrowing costs up.

Thirty companies have filed for Chapter 11 bankruptcy protection since January. Seven companies have gone directly to Chapter 7. The economic crisis has forced these companies into bankruptcy and the dramatic freeze in the credit markets has meant that those companies that went directly to Chapter 7 couldn't find debtor-in-possession financing.

Too many financial institutions that had an inflow of capital from the government used it to simply shore up their own balance sheets without helping to strengthen the economy as a whole. They sat on their funds, refusing to reignite economic growth by opening up their credit operations.

And, let's recognize the unique problem that faces many manufacturers who produce globally competitive products. You don't simply flip a switch and bring a blast furnace back online once it has shut down. A company needs to know that its order book will start to fill again if it's going to be able to access the credit markets to resume operations. Our competitors – China, Russia and many others are just waiting on the sidelines to dump products into our markets to gain market share. Their willingness to do whatever it takes – even resorting to subsidies and other unfair and predatory trade and pricing practices – means that some of our companies may not be able to increase production in the short-term. And, if credit doesn't begin flowing more freely and markets begin operating fairly, they may never come back.

Fewer and fewer companies are now triple-A rated. Every downgrade increases borrowing costs, if capital is, in fact, available. Small and medium-sized firms are heaviest hit, but the anemic credit markets have hurt everyone.

Policy options:

Mr. Chairman. The needs of the manufacturing sector are broad and deep. There is no one silver bullet. Just as manufacturing supply chains are increasingly intertwined, so are the policy issues that confront manufacturers. Health care policy. Pensions. Trade. Education and skills. Labor policy. Tax policy. Banking and credit policy. There are very few issues confronting you and your fellow legislators whose resolution does not have an impact on our nation's manufacturing sector.

But, let me start with some things that need to be done quickly if we are to stabilize the sector and see it begin to grow again. Restoring growth in the manufacturing sector is vital to reigniting economic growth in this country.

Let me first make an important point. We all travel on planes regularly and probably no longer listen to the safety instructions the flight attendants give at the start of every flight. The other day, however, I stopped to listen for a moment. During the flight attendant's comments she said, "if the cabin pressure drops, oxygen masks will drop. Before helping those who may need assistance, put your own mask on first."

That's what we have to do here in America. If we are able to help the world economy, we first have to help ourselves. A strong America leads to a stronger world. We can no longer be the economy of first resort where other countries can send their products. World demand and supply needs to be in better balance in the future. But, if we fail to provide oxygen to the U.S. economy, it's hard to see any other economy surviving the crisis we face.

Credit for the manufacturing sector is oxygen to our economy. We've got to provide more credit at reasonable rates if we're going to succeed. The financial injections our government has made into the economy have stabilized some financial firms. But, too many of these firms have not restored credit operations and too many have spent more time worrying about how much their CEOs and senior management should be paid than on reviving the economy.

This isn't just limited to the banks and financial institutions. A press story recently related how some firms were refusing to participate in government support programs because of the potential limits on their own pay. They were seeking other sources of credit, at far higher rates, so that their own pockets wouldn't be affected. The victims were the workers and, indeed, the shareholders. This should be subject to legal challenge.

We need to restore demand in this country. The stimulus package was a good start. That law, as you know Mr. Chairman, since you were one of the leaders, included provisions to promote Buy America policies. This provision was vital, but it must be followed up with strong implementation actions at the state and local level and transparency at all levels. Already the Steelworkers have led efforts across the country that has led to hundreds of state and local resolutions supporting procurement policies that source domestically, whenever possible. We also need to urge the Administration to implement the law in a way that furthers Congressional intent. I'm troubled by how they have drafted the interim regulations, including their definition of manufactured good, and how they have failed to adequately ensure that the waiver request process is transparent, so that the public can determine how their tax dollars are being spent.

Credit must be more readily available to get companies that have had to declare bankruptcy to resume operations and to become profitable again. And, we need to make sure that it's available so that more companies don't go straight into liquidation.

Mr. Chairman, we also need a trade policy that works for working Americans. Too many companies and workers have lost faith in their governments' willingness to enforce the laws we have on the books. Imports still flood our markets and, as I said before, if we're going to bring production back online, much less invest in growth for the future, companies have to have confidence that they're going to be able to get an adequate return on their investments. The cost of credit is one thing, and, indeed, it's in part, a function of our trade policies. But without substantial changes in the direction of our nation's trade policies, we're going to continue to see devastation in our manufacturing sector.

We must also recognize that our economic strength and our national strength are intertwined.

We also need to get our auto policy right. We must not pursue a policy of trying to downsize and outsource to prosperity. That's a recipe for disaster. It will only result in downsizing the American dream.

Conclusion

Mr. Chairman. I want to thank you and the members of the subcommittee for holding this important hearing. I know that the challenges our nation faces are great, and the solutions will not always come easily. But, we cannot afford not to act. The members of my union stand ready to work with you and others to restore the American Dream.