Testimony of
Scott N. Paul
Executive Director
Alliance for American Manufacturing
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Mr. Chairman and members of the Subcommittee, I want to thank you for taking the time to study manufacturing and global competitiveness, 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. We are a partnership formed in 2007 by some of America's leading manufacturers and their workers to explore challenging public policy topics such as international trade, health and retirement security, and global competitiveness. AAM works in a cooperative, non-partisan way, bringing together labor and management, Democrats, Republicans and independents, to work 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.

Over the past two years, we've visited with tens of thousands of workers and hundreds of manufacturers to see what's happening on the ground firsthand. As you can imagine, the news is grim. That's because for manufacturing, this recession began about a decade ago. Over the past 19 months, this decline has been turbocharged. It's clear that bold solutions are required to revitalize manufacturing, which is why we have sought to collect the wisdom of innovative thinkers around the nation.

To that end, we published a book this week titled *Manufacturing a Better Future for America*, copies of which have been provided to each Senator. With contributions from 10 leading academics and experts, the book takes a comprehensive look at some of the major issues facing manufacturing today: international trade, an array of subsidies offered by our global economic competitors, the consequences of the offshoring of research and development, the shocking lack of support for investment in advanced manufacturing, the appalling state of skills and training programs, the challenges for domestic manufacturers in globalized supply chains, and the consequences of deindustrialization on society, communities, and our defense industrial base.

Even without reading this book, we all know that something has gone terribly wrong with the U.S. economy. But chalking up the blame to a few bad apples on Wall Street and their risky financial instruments, and responding by simply providing appropriate regulation in the financial services sector, will ultimately be unsatisfying. There are much deeper, structural issues which must be urgently addressed. Otherwise, the positive feedback loop between consumer debt, subsidized Chinese imports, American job loss, the U.S. current account deficit, and growing Chinese currency reserves reinvested in American debt, thus inflating new bubbles, will only be reinforced.

Some of us warned that this day would come. We knew that an economic strategy predicated on replacing wage growth with debt and credit to maintain a certain standard of living was doomed to fail. We knew that this nation could not replace manufacturing jobs and their multiplier effect, as well as their positive impact on the trade balance and wealth generation, with lower-wage service and retail jobs. We knew that our national security would begin to suffer if we did not have a vibrant enough manufacturing base to resupply our troops and provide the armaments for the future. We knew that if our leaders viewed international trade as a foreign policy tool and a path to cheap imports, rather than as an essential element for economic growth and domestic production, the consequences would be disastrous.

The warnings came not only from labor leaders, domestic manufacturers, and an insightful group of elected officials—they came also from very conservative economic quarters. Well before this new, great recession began, Warren Buffet said “Our trade deficit has greatly worsened, to the point that our country’s ‘net worth,’ so to speak, is now being transferred abroad at an alarming rate. A perpetuation of this transfer will lead to major trouble.” Martin Feldstein—former Chairman of President Reagan’s Council of Economic Advisors—said, “The present level of the current account deficit is enormous, it is unprecedented and I believe it is unsustainable.”

The result of growing current account deficits has been more manufacturing job loss and a healthy share of the blame for the economic collapse this nation experienced last year. Some say that the total number of manufacturing jobs has been falling anyway, and that this isn't such a bad thing as we transition to a new economy. Mr. Chairman, I believe that particular view is dangerous and misguided.

Contrary to a widely held analysis, manufacturing employment 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 recessions—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, while conforming to orthodox economic views, are not satisfying. The decline of manufacturing employment and manufacturing's share of GDP are not inevitable, desirable, nor can they be explained solely through theories of churning capitalism, advances in productivity and technology, compensation costs or inefficiency.

Consider this: more than 40,000 factories have shut their doors over the last decade. They weren't making buggy whips; they were manned by some of the most efficient workers in the world. To wit, we already have large and growing trade deficits in advanced technology and clean energy, even though these supposedly represent "new economy" sectors and the jobs of the future in the eyes of many.

The failure of our domestic and international trade policies to support manufacturing must be quickly reversed. We urgently need a national manufacturing strategy.

The idea of a manufacturing strategy or industrial policy 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. If today's leaders spent more time focusing on Hamilton and less time on Smith and Ricardo, I don't think we'd be facing the prospects of a jobless recovery.

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.

Yesterday, United States Trade Representative Ron Kirk delivered an address outlining the beginning of a new enforcement approach as part of our overall trade agenda. That comes as welcome news to those manufacturers and their employees who have seen a flood of imports flow into our market often benefiting from subsidies and other unfair practices by their governments. His speech comes as welcome news, but the success of his efforts are going to be measured on a daily basis.

Apply those principles to the economic challenges of today, and you have the foundation of a manufacturing strategy: raise the value of China's *yuan* to market-based levels, invest in value-added manufacturing such as clean energy and industries with strategic significance, and engage in serious bilateral talks with China to ensure that it honors the commitments it made upon entry into the WTO in 2001 to eliminate its myriad mercantilist and protectionist policies. Finally, keep Buy America requirements in place so that tax dollars are re-invested in our economy and the employment benefits of infrastructure spending accrue not only to the construction industry, but also to our manufacturers.

But a successful manufacturing strategy must go deeper than that. I join Leo Hindery, Mr. Chairman, in expressing support for your IMPACT legislation, which would provide access to much-needed capital for small- and mid-sized manufacturers to help capture new clean energy markets, both here and abroad. At a time when access to capital is still very tight, a public commitment like this is essential. Moreover, those who say the market alone should dictate winners and losers forget three important lessons. First, some of the greatest innovations since World War II—the semiconductor and the internet—were developed with public assistance. Second, our policies already pick winners and losers, but we tend to pick the wrong winners—those who profit through selling cheap, subsidized imports, or those companies heavily invested in fossil fuels. Let's pick winners in more productive, wealth-generating activities like domestic manufacturing for a change. Third, other nations are aggressively supporting emerging industries like clean energy. Unless we want green manufacturing jobs created in Shanghai instead of Cincinnati, or Dusseldorf instead of Denver, we must support domestic development of these industries.

A key component of any manufacturing strategy must be public investment, especially in infrastructure. The American Recovery and Reinvestment Act made a down payment on infrastructure investment, but our nation will still be hampered by what the American Society of Civil Engineers estimates is a $2.2 trillion deficit in infrastructure investment over the next five years. Improving our infrastructure provides a greater return on investment for taxpayers than tax cuts and virtually every other form of spending. In the process, it boosts construction jobs, stimulates demand for manufactured goods, and improves productivity and economic growth by making transportation more efficient. According to a recent study by economists at the University of Massachusetts at Amherst, ensuring that the materials purchased with tax dollars for infrastructure projects are sourced domestically creates 33 percent more manufacturing jobs, which is why we urge the Senate to continue its strong support for Buy America provisions.

The cost, supply and composition of energy resources consumed by our manufacturers must also be considered, especially in the context of federal and international efforts to reduce greenhouse gas emissions. As the Senate begins its deliberations over a legislative solution to combating global climate change, it is essential that provisions be included to prevent the shifting of manufacturing jobs to countries with less regulation. A poorly designed approach to this issue will result in a net increase in global emissions and will put millions of energy-intensive manufacturing jobs here in the United States at risk.

Specifically, it is essential for any climate change bill to include a fair and equitable allocation of allowances to rebate the full cost of complying with new legislation. Sufficient allowances from the total pool should be devoted to energy and trade intensive industries; the allowances should be available for as long as practicable to bring other nations into compliance with a global regime and to develop new technologies to improve energy efficiency and reduce carbon use. Second, the legislation must include a mechanism to impose a "border adjustment" on goods imported from countries that do not have comparable limits on carbon emissions. Such a mechanism would impose a fee on the carbon content of goods imported from these countries and should be bypassed only with Congressional approval. And, the border adjustment must be rebatable to our exporters so that action – or inaction – on climate change is not used as a competitive tool by our trading partners to limit trade flows.

It is important to note that such a provision would be permissible under our international obligations. A June 26, 2009, report released by the WTO and the United Nations Environment Programme said: "Rules permit, under certain conditions, the use of border tax adjustments on imported and exported products…The objective of a border tax adjustment is to level the playing field between taxed domestic industries and untaxed foreign competition by ensuring that internal taxes on products are trade neutral."

These provisions are essential to preventing a shift of our domestic manufacturing base in energy-intensive industries to industrialized nations such as China, the world's largest emitter of carbon dioxide, and India, which has publicly rejected efforts to control emissions.

To illustrate this point, in March, we released a study outlining the competitive advantage already enjoyed by Chinese steelmakers, who operate under less stringent environmental standards than most developed countries. Levels of pollution are three to twenty times higher per ton of steel produced in China than in the U.S., depending on the specific pollutant and industrial process analyzed. China is the world's leading industrial carbon dioxide emitter. Meanwhile, our domestic steel producers are the most efficient in the world, with the lowest energy consumption and lowest emissions per ton of production.

It would be a grave mistake to put our energy intensive industries (including chemicals, paper, iron and steel, aluminum, rubber, cement, and glass) at a competitive disadvantage as an unintended consequence of seeking to control greenhouse gas emissions. We look forward to working with you to ensure the Senate legislation includes these important measures.

Mr. Chairman, I want to close by framing the broad goal of an American manufacturing strategy, as outlined by President Obama in April. The President, appearing at a Group of 20 Summit in London, said:

> "… in some ways the world has become accustomed to the United States being a voracious consumer market and the engine that drives a lot of economic growth worldwide…We're going to have to take into account a whole host of factors that can increase our savings rate and start dealing with our long-term fiscal position, as well as our current account deficits. Those are all issues that we have to deal with internally, which means that if there's going to be renewed growth, it can't just be the United States as the engine. Everybody is going to have to pick up the pace…I should add, by the way, that to the extent that all countries are participating in promoting growth, that also strengthens the arguments that we can

> make in our respective countries about the importance of world trade -- the sense that this isn't a situation where each country is only exporting and never importing, but rather that there's a balance in how we approach these issues."

Balance is the key. And if balance is the goal, the surest path forward is to invest more in domestic manufacturing and reform our trade policies. Such actions will create more exports, more jobs, more innovation, and more growth. Mr. Chairman, we look forward to working with you and members of the subcommittee on strategies to revitalize this important sector of our economy.