

September 24, 2018

TO: Members, Subcommittee on Digital Commerce and Consumer Protection

FROM: Committee Majority Staff

RE: Hearing entitled “Built in America: Jobs and Growth in the Manufacturing Sector”

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## **I. INTRODUCTION**

The Subcommittee on Digital Commerce and Consumer Protection will hold a hearing on Wednesday, September 26, 2018, at 10:00 a.m. in 2123 Rayburn House Office Building. The hearing is entitled “Built in America: Jobs and Growth in the Manufacturing Sector.”

## **II. WITNESSES**

- Edward F. Paradowski, President, Apache Stainless Equipment Corporation;
- Nikki Moyers, Vice President of Operations, Jerl Machine, Inc.;
- Eric R. Anderberg, Vice President, Dial Machine, Inc.; and,
- Andrew Stettner, Senior Fellow, The Century Foundation.

## **III. BACKGROUND**

Manufacturing in the United States contributed \$2.33 trillion to the U.S. economy in the first quarter of 2018. The manufacturing sector accounts for 8.6 percent of the workforce, employing 12.8 million Americans.<sup>1</sup> On average, these jobs pay over \$84,000 annually (including benefits).<sup>2</sup>

In addition to these 12.8 million jobs, manufacturing has the largest multiplier of any economic sector, where each dollar of manufactured goods generates \$1.40 in output from other sectors of the economy.<sup>3</sup> In 2013, an additional 17.1 million jobs were indirectly supported by the manufacturing sector.<sup>4</sup> The biggest segments within the manufacturing sector are: chemicals (12 percent of total production); food, drink, and tobacco (11 percent); machinery (6 percent);

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<sup>1</sup> *Top 20 Facts About Manufacturing*. National Association of Manufacturers.  
<http://www.nam.org/Newsroom/Facts-About-Manufacturing/>

<sup>2</sup> *Id.*

<sup>3</sup> *Supra* at 1.

<sup>4</sup> Kotkin, Joel and Michael Shires. *Where U.S. Manufacturing is Thriving in 2018*. Forbes. May 23, 2018.  
<https://www.forbes.com/sites/joelkotkin/2018/05/23/where-u-s-manufacturing-is-thriving-in-2018/#35d6535e53b3>

fabricated metal products (6 percent); computer and electronic products (6 percent); and motor vehicles and parts (6 percent).<sup>5</sup>

According to the Bureau of Labor Statistics, manufacturing jobs in the United States peaked in 1979 at 19.4 million, but within 10 years had dropped by nearly two million jobs. What had been a steady decline in manufacturing employment accelerated at the turn of the century and the Great Recession further exacerbated this decline.<sup>6</sup> The manufacturing sector was hit the hardest in terms of job losses during the Great Recession and until recently, has only experienced modest turn around. The manufacturing sector lost 7.1 percent of its jobs in the 2001 recession and another 14.8 percent in the Great Recession. Unlike previous recessions, however, neither were followed by a recovery of those lost jobs in the 30 months following.

### **A. U.S. Manufacturing in International Context**

In 2010, China surpassed the United States as the largest manufacturing nation, with value added in manufacturing exceeding \$3 trillion in 2016, compared to \$2.2 trillion for the U.S.<sup>7</sup> China has a manufacturing output of over \$2.01 trillion, which accounts for 27 percent of China's national output and 20 percent of the world's manufacturing output. Manufacturing in the United States accounts for 12 percent of the nation's output and 18 percent of the world's output. Japan ranks third with an output of \$1.063 trillion.<sup>8</sup>

U.S. leadership in technology development and production has been an integral part of its continued manufacturing success. Computer and electronics manufacturing has primarily driven output growth since the 1970s.<sup>9</sup> Semiconductor and chip manufacturing is especially important, not only to the economy but to our national security, as was evident in the recent debate over Broadcom's bid for Qualcomm.<sup>10</sup> Chips manufactured in the United States still dominate worldwide sales, but that number has waned in the past 20 years. China has recently committed to spend up to \$100 billion to create the dominant chip industry,<sup>11</sup> which would threaten

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<sup>5</sup> *United States Manufacturing Production*. Trading Economics. <https://tradingeconomics.com/united-states/manufacturing-production>

<sup>6</sup> Desilver, Drew. *Most Americans unaware that as U.S. manufacturing jobs have disappeared, output has grown*. Pew Research Center. July 25, 2017. <http://www.pewresearch.org/fact-tank/2017/07/25/most-americans-unaware-that-as-u-s-manufacturing-jobs-have-disappeared-output-has-grown/>

<sup>7</sup> Levinson, Marc. *U.S. Manufacturing in International Perspective*. Congressional Research Service. February 21, 2018. <https://fas.org/sgp/crs/misc/R42135.pdf>

<sup>8</sup> West, Darrel M. and Christian Lansang. *Global Manufacturing Scorecard: How the US Compares to 18 Other Nations*. Brookings Institute. July 10, 2018. <https://www.brookings.edu/research/global-manufacturing-scorecard-how-the-us-compares-to-18-other-nations/>

<sup>9</sup> Houseman, Susan, et al. *Measuring Manufacturing: How the Computer and Semiconductor Industries Affect the Numbers and Perceptions*. W.E. Upjohn Institute. January 2014. [https://research.upjohn.org/cgi/viewcontent.cgi?referer=&httpsredir=1&article=1226&context=up\\_workingpapers](https://research.upjohn.org/cgi/viewcontent.cgi?referer=&httpsredir=1&article=1226&context=up_workingpapers)

<sup>10</sup> Woo, Stu and Drew Fitzgerald. *How Cellphone Chips Became and National-Security Concern*. The Wall Street Journal. March 7, 2018. <https://www.wsj.com/articles/how-cellphone-chips-became-a-national-security-concern-1520450817>

<sup>11</sup> Goel, Vindu. *To Keep U.S. Jobs, Chip Makers Share a Factory and Pin Hopes on Trump*. New York Times. February 26, 2017. <https://www.nytimes.com/2017/02/26/technology/im-flash-intel-micron-manufacturing-trump.html>

manufacturing jobs in the United States, but also impact the race to 5G, improvements in artificial intelligence, and development of quantum computing.

## **B. Recent Growth in the Manufacturing Sector**

In August of 2018, American manufacturers experienced a 14-year high in business conditions according to the Institute for Supply Management (ISM). The ISM manufacturing index jumped to 61.3 percent, which indicates an expansion in manufacturing activity and an increased confidence in executives for continued growth in the coming months.<sup>12</sup>

Blue-collar jobs are growing at the fastest rate since 1984, with manufacturing driving much of the boom. The most recent resurgence has disproportionately occurred in small and medium-sized towns all across America. Of 373 metropolitan statistical areas assessed, nine of the top areas for industrial growth are small and medium-sized metro areas, with the most encouraging growth occurring in the Rust Belt.<sup>13</sup> Following the Great Recession, large urban areas experienced the quickest turnaround, but rural and smaller metro area employment growth recently eclipsed that, with 5.1 percent and 5 percent increases respectively.<sup>14</sup>

Manufacturing output is at a near record level. Disruptive technologies like 3D-printing, advanced robotics, the Internet of Things, and Big Data have increased levels of productivity in the U.S. and made it an attractive location for high-technology manufacturing firms.<sup>15</sup> Low costs of fuel and an increase in American natural gas production has also allowed output to increase and businesses to expand.<sup>16</sup>

Optimism is at an all-time high, with 95.1 percent of manufacturers reporting a positive outlook for their company. These numbers were consistent across small, medium, and large manufacturing firms and translate to expected growth in sales, employment, and wages. On average, manufacturers are expecting a 3.1 percent increase in full-time employment and a 2.7 percent increase in employee wages over the next year.<sup>17</sup>

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<sup>12</sup> *August 2018 Manufacturing ISM Report on Business*. Institute for Supply Management. September 4, 2018. <https://www.instituteforsupplymanagement.org/ISMReport/MfgROB.cfm?navItemNumber=31053&SSO=1>

<sup>13</sup> *Supra* at 4.

<sup>14</sup> Long, Heather and Andrew Van Dam. *Under Trump, the jobs boom has finally reached blue-collar workers . Will it last?* Washington Post. September 9, 2018. [https://www.washingtonpost.com/business/2018/09/09/under-trump-jobs-boom-has-finally-reached-blue-collar-workers-will-it-last/?utm\\_term=.eac9ab496641](https://www.washingtonpost.com/business/2018/09/09/under-trump-jobs-boom-has-finally-reached-blue-collar-workers-will-it-last/?utm_term=.eac9ab496641)

<sup>15</sup> Muro, Mark, Et al. *America's Advanced Industries*. Brookings Institute. February 2015.

[https://www.brookings.edu/wp-content/uploads/2015/02/AdvancedIndustry\\_FinalFeb2lores-1.pdf](https://www.brookings.edu/wp-content/uploads/2015/02/AdvancedIndustry_FinalFeb2lores-1.pdf)

<sup>16</sup> Gray, Wayne. Et al. *The Impacts of Lower Natural Gas Prices on Jobs in the US Manufacturing Sector*. Resources for the Future. January 2018.

<http://www.rff.org/files/document/file/RFF%20Rpt%20Gas%20Prices%20Jobs.pdf>

<sup>17</sup> *NAM Manufacturers' Outlook Survey, Second Quarter 2018*. National Association of Manufacturers. June 20, 2018. <http://www.nam.org/Data-and-Reports/Manufacturers-Outlook-Survey/2018-Second-Quarter-Manufacturers-Outlook-Survey/>

### C. Legislative and Regulatory Changes

President Trump signed the Tax Cuts and Jobs Act into law on December 22, 2017, amending the Internal Revenue Code of 1986. One of its provisions lowered the corporate tax rate to 21 percent. Prior to its passage, the corporate income tax rate was 35 percent, the highest of all developed nations.<sup>18</sup>

Since its enactment, nearly 1.7 million jobs have been created, average wages have risen 2.7 percent, and more than \$4 billion has been paid out in the form of bonuses. Directly crediting the Tax Cuts and Jobs Act, over 100 manufacturers have invested more in their businesses, including hiring new employees and increasing wages and benefits for current employees.<sup>19</sup>

In 2016, nearly three quarters of manufacturers cited an unfavorable tax and regulatory environment as their primary business challenge. As of June 2018, only 19.1 percent cited the “business environment” as a top concern.<sup>20</sup> Resources that had previously gone to paying taxes can now be used to grow businesses, leading to more investment in the U.S. The Tax Cuts and Jobs Act also allows businesses “to deduct more of the cost of capital investments, such as land, machinery, and buildings, providing more incentive for expansion.”<sup>21</sup>

According to a recent study by the Brookings Institution, the United States ranked second in overall manufacturing environment based on its policies, cost considerations, workforce investments, and infrastructure.<sup>22</sup>

As recently as 2016, an unfavorable regulatory environment was of top concern for manufacturers. A 2012 study found the average regulatory compliance cost to manufacturers per employee per year was \$19,564. The smallest manufacturers with fewer than 50 employees paid even more, with compliance costs three times greater than the rate for all U.S. businesses. The total cost of Federal regulations was \$2.028 trillion, with \$1.937 trillion going to economic, environmental, and tax compliance costs.<sup>23</sup>

In the waning months of the previous administration, the Department of Labor finalized nearly twice as many regulations as the previous four administrations. The National Association of Manufacturers estimates that the cost of these regulations over the next ten years would have

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<sup>18</sup> Table II.1. *Statutory corporate income tax rate, 2016*. Organization for Economic Co-Operation and Development. [https://stats.oecd.org/index.aspx?DataSetCode=TABLE\\_III](https://stats.oecd.org/index.aspx?DataSetCode=TABLE_III).

<sup>19</sup> Marone, Abigail. *Boom! Thanks to GOP Tax Cuts, Manufacturers are Hiring and Expanding*. American’s for Tax Reform. September 14, 2018. <https://www.atr.org/manufacturing>

<sup>20</sup> *Supra* at 16.

<sup>21</sup> Gray, Stephen. *Manufacturing Forecast 2018: Opportunities and Obstacles*. Grayway. January/February 2018. [https://www.gray.com/sites/default/files/pdfs/grayway/grayway\\_jan\\_feb-link.pdf#page=3](https://www.gray.com/sites/default/files/pdfs/grayway/grayway_jan_feb-link.pdf#page=3)

<sup>22</sup> *Supra* at 8.

<sup>23</sup> Crain, Mark W. and Nicole V. *The Cost of Federal Regulation to the U.S. Economy, Manufacturing and Small Business*. National Association of Manufacturers. September 10, 2014. <http://www.nam.org/Data-and-Reports/Cost-of-Federal-Regulations/Federal-Regulation-Full-Study.pdf>

surpassed \$81 billion and lost 155,700 jobs.<sup>24</sup> Environmental regulations also put a strain on the manufacturing sector, both directly through costs of compliance, and indirectly, through the increased costs of electricity and transportation fuels.

As of January 2018, Congress has repealed 14 regulations through the Congressional Review Act, and the current administration has taken action to cut regulatory costs by \$8.1 billion.<sup>25</sup> Much of that savings is through the nullification of the blacklisting rule, which was expected to cost manufacturers \$3.2 billion over the next 10 years.<sup>26</sup> The elimination of the Clean Power Plan and a review of corporate average fuel economy (CAFE) standards have also alleviated costs for the manufacturing sector and encouraged growth.

#### **IV. ISSUES**

The following issues may be examined at the hearing:

- How has U.S manufacturing been impacted by recent policy developments?
- How have low unemployment and rising wages impacted manufacturers?
- What further measures can policymakers take to help America's manufacturing recovery?

#### **V. STAFF CONTACTS**

If you have any questions regarding this hearing, please contact Melissa Froelich or Gregory Zerzan of the Committee staff at (202) 225-2927.

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<sup>24</sup> Brannon, Ike and Sam Batkins. *The Aggregate Economic Cost of New Labor Market Regulations*. National Association of Manufacturers. <http://www.nam.org/Data-and-Reports/Reports/Labor-Market-Regulations/LaborMarketRegulations-study/>

<sup>25</sup> Vinik, Danny. *Trump's war on regulations is real. But is it working?* Politico. January 20, 2018. <https://www.politico.com/agenda/story/2018/01/20/trumps-regulatory-experiment-year-one-000620>

<sup>26</sup> *Supra* at 22.