

Written Testimony of Eric Anderberg
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Subcommittee on Digital Commerce and Consumer Protection
“The State of American Manufacturing”
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I would first like to thank Chairman Latta, Ranking Member Schakowsky, my Congressman Adam Kinzinger and the Members of the Subcommittee on Digital Commerce and Consumer Protection for inviting me to testify to today as a small Midwestern manufacturer and to attest to the current condition of American Manufacturing.

My name is Eric Anderberg and I am the Vice President and co-owner of Dial Machine, Inc., which is a 52-year-old family owned contract manufacturer of high precision medium to large components and assemblies located in Rockford, Illinois. We employ currently about 60 people of whom about 45 of them are skilled tradesman, machinists and assemblers. We have a need currently for at least another 10 to 15 skilled workers that we just cannot seem to fill. We manufacture for various industries, including government defense and national laboratories. Our primary customers are large industrial companies that serve the mining, construction, oil & gas, power generation and nuclear science industries.

The current state of American manufacturing right now is outstanding. Our backlogs have improved dramatically compared to over the past five years and the optimism in my 25 years has never been this high. My father, who has been in this industry for over 61 years, has never seen such a run up in demand and the outlook from customers and vendors be so great. Our sales for the year at this point, after the third week of September are already almost 30% over

our total sales for all of 2017 and are over 50% greater than all of 2016 and we have three months yet to go in our calendar year.

One thing that I find unique in this manufacturing environment right now is that it seems almost every sector is in this position. Over the years, through our contacts and associations, generally you would find that maybe certain industries like ones tied to oil & gas may be up while maybe automotive may be down as the price of energy was up and perhaps other industries would not be as busy as the industries we serve. In conversing with other small manufacturing owners that serve other industries other than the ones we serve, I have found that almost all the manufacturing sectors are busy, at least I have not heard of any one industry or manufacturing business that is not busy. The consensus is that this upturn and period of manufacturing growth has legs and will persist for the foreseeable future if there are no detrimental changes to the economy.

I am sure those in Washington would like to know why industry is doing so well at this point? The answer is really simple, confidence. One thing you hear a lot about is the confidence that customers and their suppliers have today. Everyone in industry right now has confidence in a bright future that is conducive to installing and deploying capital, making investments in your operations and your people.

I think there are three main components related to our government and the current policies that explain why there is confidence and why the manufacturing sector is running on all cylinders right now. Those three items are the changes in the tax code, the reduction in burdensome

regulations and a focus on improving the conditions of trade or leveling the playing field for American manufacturers.

TAX

This confidence that we see for one has been spurred by changes in tax policy in Washington. First and foremost, we have an income tax cut. The reduction in C Corporation taxes to the low 20's as a percentage has helped larger corporations to be incentivized to move production and investment back to the United States. We have experienced this first hand as we have seen work that has been sent offshore by our larger customers in the past, now starting to come back. Also, work that had the potential of being sent offshore seems to now have more of a long term plan to stay here. The larger corporations are also investing heavily in capital equipment and upgrades in their plants right now.

For the S Corporations for companies such as ourselves or pass-throughs, the tax cut we received is not as great and hopefully that could be adjusted in the Tax 2.0 rewrite. Since the majority of small businesses are incorporated as pass-through and since over 70% of all new jobs are created by small businesses it only makes sense to help us keep more of our capital and use it toward growth and investing in our companies and creating more jobs, after all private industry can better deploy that capital for economic growth than any government agency or program. I can personally say that the tax cut that we have received is helping us invest and improve our operation.

Another important part of the Tax Bill was increasing the 179 Expensing and increasing the Accelerated Depreciation back to 100%. These have been critical for small manufacturers such as ourselves in helping us to be able to afford to invest in new capital equipment that helps to make us more competitive and helps to automate some of our operations. This year alone so far, we have added two new machines with a capital cost of over \$1.5 million and the 179 and Accelerated depreciation play a big part in helping to make the decision to outlay that much for our operation at once. Several of my counterparts that I have talked to have also invested in new capital equipment this year, I actually do not know of anyone in our industrial circle that has not. It is not complicated, when the incentive is there, business will use it and the economy will grow.

By leaving more capital in the hands of business and job creators this is spurring all of this investment and creating the job growth, low unemployment and wage increases that we are currently witnessing. A good example is when a farmer or a mining operation take advantage of the extra income, 179 or Accelerated depreciation, it trickles down to small manufacturers like us as their increased investment in equipment, increases our investment in equipment and our facility to meet the demand of our customers that make that equipment for the farmer or the miner.

Wages have also increased because of the activity from the tax cuts. In our small operation alone, we have increased wages for our employees and we are offering higher than usual wages for applicants to start. We have to, if you want to attract and retain the best you have to offer and be the best. We have done some of the wage increases, number one because our people deserve it, they've earned it and I will also admit it is also a defensive mechanism to

prevent having another business steal away your employees. There is a severe scarcity of skilled labor so the wages must rise and I can attest personally that they are. As you all have heard by now, there is a severe shortage of skilled and willing workers today to do the work that is being demanded. This is our biggest challenge at the moment.

REGULATION

Another item that has instilled confidence and investment in American manufacturing has been the Administration's policy and that of the Congress to reign in and roll back excessive regulation that thwarts economic growth. As I mentioned earlier, a good part of our business is tied to the fossil fuel industry as there are many industries and jobs that are tied to fossil fuel energy. For one, the past policy of "necessarily bankrupting" a coal fired power plant was harmful and not conducive to investment in fossil fuel exploration and extraction equipment, namely the mining industry. I would argue that after the 2012 election the regulation pedal was pushed to the floor on these industries. The government's decision to pick winners and losers for our energy supply hurt mining and oil extraction. Those industries contracted and many coal mines went out of business. Our largest customer, Caterpillar, produces a large portfolio of equipment for coal mining and mining in the oil sands in Canada. Caterpillar suffered for the first time in their 100+ year history a 4+ year slump in sales of equipment, especially mining equipment. It affected us greatly, we also experienced over a 4-year slump heading into 2013 up until mid 2017, and many in our industry didn't make it. To give you an idea, Caterpillar built in 2012 over 400 of their largest mining bulldozers, the D11T, the following year in 2013 they built 56. At Dial Machine we have components that we make for all of the large mining

bulldozers, we went from shipping 6 to 8 large bulldozer sets a day in 2012 to as few as ½ of a bulldozer a day in 2016.

Today, after the change in policy we are now back to 5 to 6 large mining bulldozer sets a day for shipment, and if we could ship more, Caterpillar would take them. The regulatory roll back and the eradication of the uncertainty caused by onerous government regulation has been a huge boost to industry confidence.

As my family and I also farm, I was aware of the Clean Waters Act and its potential overreach. According to associations like the Farm Bureau their legal analysis stated that if the Waters of the U.S. Rule expanding EPA's reach were to take effect throughout the country, then government could regulate even a puddle of water on your farm, in addition to a contained man-made cooling pond on a manufacturing site. This type of overreaching government policy is not conducive to a healthy atmosphere for investing in your farm or ranch, or even your manufacturing business. The outcomes of those types of policies were clear to manufacturers the past four and a half years. Again, when you have an agency that wants to exert so much control over the private sector that it proposes taxing every single head of cattle for flatulence, it creates a terrible message to the private sector as well it should. That type of an attempt of government control destroys confidence, creates uncertainty and hurts economic growth. We are thankful for the one hundred and eighty degree turn to a common-sense approach with these regulatory agencies.

For many years it has puzzled me, why agencies such as the EPA and OSHA have to be so adversarial to business. We all want a clean and safe environment; we all want a safe place to work. Perhaps instead of the operation and policies of these agencies being so threatening and adversarial, these agencies could be more of a partner and work with those businesses and

industries to improve areas that need to be changed for the better, not just fee takers and legal bill escalators for a gotcha moment. It is refreshing and encouraging to see the changes that are taking place in these agencies today because of the actions that this Congress and Administration have taken to reinforce this common-sense change.

TRADE

A third change from Washington has come from the Administration and the policy of ending unfair trade deals and practices of our foreign trading partners. This is probably the most significant change to come out of Washington in the past 40 to 50 years for American manufacturers. It is finally the acknowledgment from an Administration that our industries have been preyed upon by unfair trading practices from foreign governments. It also has created the signal that we finally have someone in Washington that understands how detrimental our lopsided trade imbalance has been and the effect in the long term this has on our nation's wealth. Our wealth generating capability is vital to maintain the U.S. economy and our standard of living. As a former congressman once told me, "If you can't make it, mine it or grow it, you are not generating wealth and you will become a third world nation".

The unfair trade practices have been the most damaging to our industry in this country for many decades. The term may be over used but foreign governments have definitely "weaponized" their industries in the form of subsidy and have used that to attack free market, independent industry. There are so many examples to give. Yes, the steel industry is one. China is by far the biggest violator and as an American manufacturer who needs to buy steel, I fully support the decision to go after China's aggression in trade. The Chinese have become the world's leading steel producer in less than 20 years, ever since being allowed to enter the WTO. Back then the

world steel making capacity of China was in the higher single digits as a percentage, today it is around 50% and their steel output has increased by a factor of eight-fold. Did China attain that percentage because they are more efficient, productive or have a cheaper operating cost than other countries? Or was it because it was a strategic policy decision and dictated by the premiere and the national government? Granted, they have increased their capacity to help build their country's infrastructure and development, but for the past 10 years their exports of steel have been growing rapidly, from 2009 to 2017 their steel exports grew over 420%! When you are a communist command and control economy you can control world outcomes, if your trading partners are asleep.

Of note, we serve some companies that make steel mill equipment who sell to the Chinese and they have told us that the Chinese have taken their trade surpluses and invested heavily into building the latest, state of the art steel mills, with equipment mainly from Western Europe. We have also been told that although China is now the largest steel producing country, they have installed capacity to make much more. So, in the end, if China were left to continue on their course unchecked, what would happen to the free market production of steel and other free market industries? Last year China produced over 800 million tons of steel, the United States produced just over 80 million tons.

The companies that I mentioned who produce equipment for steel mills are now extremely busy and gearing up for the upgrades that are taking place in American steel mills. We have done work for Arcelor Mittal and U.S. Steel; both companies are undergoing investment and upgrades that haven't been seen in this scale since the 50's. The reason again, is confidence because our government is finally acting to correct the unfair trading practices and to put an end to China's subsidies of its steel industry.

To help validate the Administration's stand on unfair trade, I will give you a couple examples direct from Rockford and its past. Rockford at one time was the machine tool capital of the

world. A machine tool is a machine that cuts or forms metal to make parts for other machines precisely, in essence a “mother machine”. Everything we possess physically has in one form or another been made by a machine tool. If you go back to the late 70’s and the 80’s the big offender of trade was Japan. The Japanese identified and subsidized their industries to get market share and to subdue foreign competition. One industry was the American Machine Tool industry. Japanese visitors to the International Manufacturing and Technology Show (IMTS) that is held once every two years in McCormick Place in Chicago could be seen taking photos of American made machines, even getting on the ground and taking pictures of the underneath of the machine tools so they could be copied and improved in Japan back then. Over the years, what you have seen since the late 70’s and the 80’s has been the death of the American machine tool industry, there are few companies left. And if you had visited the IMTS show last week at McCormick Place, you would have seen that there are very few American machine tool companies at the show any more, but the largest majority are now Japanese.

Case in point, in 1985 my father wanted to buy a new machining center and he wanted to buy one made from Cincinnati Milacron in Cincinnati Ohio, the cost was over \$500,000 for that American made machine. The dealer that represented the Cincinnati machine came to my father and introduced another brand, that was new to the U.S, it was Japanese, it was made just as well as the Cincinnati but its price was \$300,000. My father had no choice. How could the Japanese build and sell a machine for less than 60% of the cost of a machine made just a seven hour drive away from Rockford? Were the Japanese more efficient and productive; were their costs that much lower? No, it was subsidy and while the American Machine tool industry died a painful slow death over three decades, our government looked the other way and companies that were once global leaders like Cincinnati Milacron are now gone. Still today, I have talked to American machine tool leaders, such as Tino Oldani, President/CEO of Ingersoll

Machine Tools in Rockford and they have all told me that this game is still being played but now the countries that subsidize and dump are Taiwan and Korea. If we are to preserve a crucial part of what is left for our manufacturing base and national defense, we must, you must address this.

Another example is the fastener industry. It was always a standing joke that Rockford was the “screw capital” of the world. For decades, if you needed a fastener the greatest chance is that it came from Rockford. But, starting in the early 80’s things changed and again the biggest offender to start at that time was Japan. I have talked with and know people who used to work and manage at places like Rockford Products and Elco, all were major fastener manufacturers back then. Starting in the late 70’s, early 80’s, fasteners started showing up from places like Japan and later Taiwan that were subsidized. Rockford Products and Elco could not compete when finished fasteners were allowed to be sold in our country for less than the cost it took for Rockford manufacturers to buy the raw material. Rockford Products and Elco are now both gone along with numerous others. There are too many Rockford Products and Elco stories in this country that have succumbed to subsidized, unfair trade.

There are other nations that do not get the press that China does that are cheating today as well. Another good example is Brazil. Brazil has a policy of “content requirement”, so if you are an American manufacturer and you want to sell your line of tractors in Brazil, you may be required to build a plant and produce some of that equipment there and not just for Brazil but also for worldwide export. I know of two current examples of where this is happening but I am reluctant to write in the record their names. The Brazilian government also will subsidize the manufacture of say that tractor. For example, for each tractor that is built in that plant the

company will get a subsidy check. In the one instance that I know of, the American plant is cheaper in cost to produce the machine versus the Brazilian plant, but the Brazilian government writes that subsidy check to make up the difference, plus. There are also instances of components that were once made in U.S. plants now being subsidized at the Brazilian plant, to be shipped back for finish assembly in the U.S.

Our country has truly been ripped off over the past several decades by foreign owned and subsidized industry. The examples past and present are too many and our actions against that practice have been nil until now. The examples I have given could have been and can still be prevented. The practices of subsidy and cheating have clearly cost us high paying manufacturing jobs and hurt our industrial economy. I fully applaud what the Administration is doing to stop this. It has been happening for many decades. True, in the case against China we may see some increased costs in steel, although those cheap steel prices were artificial, and we may lose some business because of this but we need to place our stake in the ground. In fact, the scope of the steel tariffs against China and other foreign subsidized sources should be broadened to any other steel components or finished products to make sure that finished product made from subsidized steel doesn't come in and avoids the steel tariff. This subsidy and cheating has to stop or if left unchecked any industry could be next.

It is laughable when I hear people say that the President is getting us into a trade war when the fact is we (American industry) have been in a trade war for many decades and losing it badly and no one ever really paid attention to us until now. My hope is that every foreign partner that we trade with has their trade policies examined and our trade policies can be reciprocal. None of the manufacturers that I know want a hand out or special favor or subsidy, we are not afraid

to compete with the world, just so long as those that we compete with are playing on the same terms and the same field. If this were to be accomplished, American manufacturing will win the day and will make a tremendous comeback.

I mentioned earlier that our company does work for the national laboratories, which fall under the Department of Energy and are under this House committee. According to the Buy American, Hire American Presidential Order, Federal agencies are to procure from American business whenever possible when spending U.S. taxpayer dollars. What we have found and experienced is that currently for bidding work to the national labs that only a 12% penalty is being assessed to foreign bids because of the Presidential Order. As demonstrated by some of my subsidy examples, this is ridiculously low and this is definitely an issue that this Committee could and should address. Perhaps some of these tax, trade, federal procurement and regulatory issues that face American manufacturers speak to something that I think Congress could do as well, that most other industrialized nations have done and that is to finally create a national manufacturing policy.

THE BIGGEST CHALLENGE FOR MANUFACTURERS TODAY

I mentioned in the beginning of the inability to find skilled labor, or any labor that wants to show up for work every day on time a serious challenge. We need another 10 to 15 skilled people right now in our company. The workload and demand right now is so great that we have been turning away work because we cannot get the labor to do the work. We could easily double the

size of our operation and have full order books if we could only get the people. This is not only a problem for manufacturers but for all employers today, we are experiencing a high level of demand that there are not enough workers for and we are also experiencing societal issues that are crippling business.

This issue of trying to hire younger people into a trade is not just a problem in the United States, it is a global problem and there is no easy answer. We have a vendor that is a German machine tool manufacturer and periodically we have some of their service technicians at our facility and we have come to know them well. On the past two recent visits we have had discussions about this problem. They have told us as they travel to state of the art manufacturing plants all over Europe, Russia, China and India that no matter where they go, there are no “younger” people in the manufacturing plants. They have been told in India and even China that the younger generation does not want to do this type of work even though it pays well above the average wage. They are experiencing in Germany and Europe the same phenomena of not being able to hire and keep younger workers in this trade just as we are here. I do not see any silver bullet to fix this situation; it is a serious uphill climb. We have been trying to hire people, and we have had some success but like every other business we are falling well short of our needs. There has definitely been a societal shift with the younger generations and it is challenging to figure out what it takes to get them into a trade. This is something we have been trying to figure out and I have no answers for this yet.

If one is to point fingers at why this phenomenon has happened, I would first point fingers at us, industry. We have not done a good enough of a job of showcasing manufacturing today and exposing students and educators to what we do. We are not dungeons or dirty places to work; we are in fact state of the art, clean, highly technical environments and the pay is well above the average. The growing numbers of operations like ours are increasing the technology every year

and automation and the skills required are not just manual but also highly technical and require high level math, programming and computer knowledge. In Rockford we do have a Manufacturing Day and we have job shadowing where students come into our factories and learn about what the reality of a manufacturing facility is and what a career can be, it is helping but we have a long way to go.

I do believe that our educational system has to share some of the blame as well. Over 30 years ago all vocational programs in our area were shut down in the high schools and everything became college prep. This created a significant generational gap and in the schools a stigma was created about working in a manufacturing facility. In Rockford it also contributed to a higher dropout rate, as kids that didn't want to go to college saw no purpose in finishing high school. However, today that has changed, at Rockford Jefferson High School we have a new vocational program that started back up about 5 years ago and focuses on manufacturing and is doing a great job, another Rockford high school is also starting its vocational program again. I have talked to the administrator of the Jefferson program and they plan to start a curriculum where students work half the day at a company and do class work the other half of the day. We are making inroads but it is still a tough uphill climb to get past the stigma we have been fighting for over a generation with our youth.

We also have a successful apprenticeship program in Rockford for the metalworking industry. I am on the board of the Rock River Valley Tooling and Machining Association, we are a chapter of the National Tooling and Machining Association and we have a volunteer board with two paid employees. Our main purpose is to administer our apprenticeship program through the local community college. The RRVTMA has run this program for over 60 years. Our program is a

four year, Department of Labor accredited program that offers several different disciplines for the metalworking trades. Each graduate of the program receives a diploma from the College, a certificate from the RRV TMA and a Journeyman certificate from the Department of Labor.

Back in 2003 we had only 8 apprentices in our program, today we have over 120. The majority of which are employed by small manufacturing businesses. Our program is a great success today and has grown with the return of a vibrant manufacturing sector. The greatest majority of the apprentices are employed and sponsored and their education paid for by their employers. I want to make note of this because today the large corporations, specifically the publicly traded ones, no longer train, they shut down their apprenticeship programs 30 years ago as well. We need to enlarge the pool of skilled labor and the American manufacturing industry needs everyone to participate in training. The reality for the larger companies is that an apprenticeship program has become an expense on the income statement and in an era of where you have to please stockholders quarterly, an apprenticeship program doesn't directly seem to create a payoff for the investment in the short term. After all, it takes at a minimum of 4 to 5 years to create a proficient skilled metalworking tradesman.

Last week at our RRV TMA Board meeting I brought up the fact that I was going to be here today testifying, I asked for comments that maybe I could share. The very first one was that we do not want or need another taxpayer funded government program and we all agreed unanimously. Rockford for example in the past has had taxpayer funded programs for manufacturing that at the start seem to be the right thing to do but never seem to follow through. As I discussed earlier and as we discussed last week in our Board meeting which was comprised of eight small manufacturing business owners, let us do the training and if you want

to do something, help us keep some of our capital to do so. In turn, to incentivize the large companies again just like you did with lowering the C Corp. rate, incentivize everyone to train or start an apprenticeship program, what about a tax deduction or credit? Perhaps a change in tax law could allow a company to write off or get a deduction on their tax bill for the wages of an employee/s that are in for instance a Department of Labor accredited four year apprenticeship program. It is just an idea, but we need to do something to create a bigger pool of skilled labor and everyone has to participate to achieve that for all of us to be successful.

The fact is we are running on borrowed time right now. As of 2016, 75% of all Tool and Die makers were over 45 years of age and in the next three to five years according to one industry study two out of five skilled metalworking tradesmen will be retiring and it will be impossible to replace them with the labor pool that we have now, we need to start now to keep the momentum that we have for American manufacturing moving.