

Restoring Manufacturing in America

The offshore shift of American jobs has led to a job-less recovery in the United States, and the continued erosion of the U.S. work force threatens our country's economic viability. Congress and the administration should take action now to halt the flow of U.S. jobs overseas by providing incentives to keep jobs in this country. There are several actions outlined in this article that the U.S. government can take to preserve and create U.S. jobs.

U.S. Manufacturing in Crisis

The U.S. manufacturing sector has endured 39 consecutive months of steep job losses (as of October 2003), putting more than 2.7 million hard-working Americans in the unemployment lines. On average, we are losing 75,000 manufacturing jobs per month, many lost to unfair foreign competition. Thousands of companies – some vital to our national defense – have closed for good. High-tech white-collar jobs are joining the overseas exodus.

Why Small U.S. Manufacturers Matter

Small manufacturers are a vital part of our economy. In fact, 95 percent of all manufacturers are considered small or medium-sized businesses¹. These companies employ half of all manufacturing workers and account for more than \$1 trillion in receipts. They also pay their workers 20 percent more than other small businesses do. Furthermore, small manufacturers account for the vast majority of the basic products (e.g. tools, dies, molds and springs) and inputs (e.g. specialty metals) that are essential and critical to our national security.

10 Factors Working Against U.S. Manufacturers

In my work as House Small Business Committee chairman, as well as chair of a full committee investigating the outsourcing trend, I have identified the following factors that work against the success of U.S. manufacturers:

1. Washington's cluelessness as to the importance of manufacturing.
2. Surging cost of insurance of all kinds, especially health care.

Why this vital sector of the U.S. economy is in trouble and what Congress and the administration can do to help

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3. Overwhelming regulatory burden (federal, state and local).
4. Suffocating tax burden (federal, state and local).
5. Inaccessibility of capital due to factors such as tighter credit standards.
6. Inaccessibility of federal procurement contracts.
7. Foreign currency manipulations.
8. Steel tariffs and the damage they have done to steel-consuming industries, such as spring and stamping manufacturers. [Tariffs were lifted Dec. 4, 2003.]
9. Domestic trade barriers, including export controls and unilateral sanctions.
10. Foreign trade barriers, such as tariffs and other impediments to market access.

Plan to Restore U.S. Manufacturing

Fortunately, there is a way to preserve and enhance our manufacturing sector, and the jobs and economic stimulus it creates. To do this, we must:

- End foreign currency manipulation.
- Replace the Foreign Sales Corporation/ Extraterritorial Income Exclusion (FSC/ETI) regime with tax relief that encourages manufacturing in the U.S.
 - Require federal agencies to buy more American-made products.
 - Reduce the surging cost of healthcare.
 - Expand Small Business Administration (SBA) programs to small manufacturers.
- Reform U.S. export-control policy.

How, exactly, can these objectives be achieved? Let's explore each one in more depth.

1. End foreign currency manipulation. Economists estimate that manufacturers in China enjoy a 15-40 percent cost advantage over U.S. goods and services because of unfair currency manipulation. China, Japan, Korea and Taiwan routinely manipulate currency markets to prevent their currencies from appreciating against the U.S. dollar. The National Association of Manufacturers (NAM) estimates that two-thirds of the U.S. trade deficit with the East Asian countries is due to their currency manipulations. The

House initiated a U.S. General Accounting Office (GAO) study to investigate and report on the dollar amount of U.S. exports lost due to foreign currency manipulation practices. In addition, we authored House Concurrent Resolution 285 to urge the administration to use all available means to force East Asian countries to stop manipulating their currencies to the detriment of U.S. manufacturers.

In conclusion, China and other governments must stop their illegal currency manipulation practices, which are taking jobs away from Americans. Foreign governments must play by the rules of fair trade. If not, the U.S. government must seek remedies.

2. Tax relief for domestic manufacturers. Under World Trade Organization (WTO) order, the federal government must repeal and replace a troubled export tax program (FSC/ETI), which provides U.S. exporters \$5 billion in tax relief each year. There are two competing bills in the House addressing the FSC/ETI issue: HR 1769, which I co-authored, is revenue neutral and replaces benefits in a way that would reward manufacturers for producing in the U.S. On the other hand, HR 2896, which Rep. Thomas authored, costs an extra \$60 billion and targets tax relief toward U.S. multinational corporations operating overseas, creating the incentive to move more production overseas. To encourage U.S. manufacturers to keep jobs in the U.S., the House must pass HR 1769.

3. Require federal agencies to buy American. This would go a long way toward alleviating the problem. The U.S. government buys well over \$200 billion worth of goods and services each year. However, the government often uses taxpayer dollars to buy imported products instead of sourcing from domestic manufacturers, thus harming the domestic manufacturing base and jeopardizing future national security needs. The Pentagon especially must use more American-made products. If we lose the capability to produce our own military hardware domestically, then we lose the ability to protect U.S. citizens. The House recently passed a defense bill that contains a variety of enhancements to require the Pentagon to source more key critical components within the U.S. These provisions must not be stripped from the negotiated House-Senate conference report.

4. Reduce the surging cost of healthcare. With premiums soaring 20-40 percent for small businesses, the percentage of small businesses offering health care benefits is slumping (from 67 percent in 2000 to 61 percent in 2002)². For small businesses employing less than 25 workers, the situation is worse: Only 30.8 of workers in such firms received healthcare coverage in 2002³. In contrast, large businesses fare much better under our current system,

as they have the ability to buy healthcare at reduced rates based on volume.

There are several initiatives that can ease the burden of high health care costs. First, small businesses should be able to pool interests in negotiations with healthcare providers under association healthcare plans. The House passed this initiative in 2003. Second, expanded use of medical savings accounts (tax-deferred savings accounts for health care costs not covered by insurance) and tax credits for the uninsured would help reduce the cost of healthcare for manufacturers and workers in America. Third, reform of our medical malpractice litigation system is greatly needed and would dramatically lower insurance premiums for manufacturers. The House passed a malpractice litigation reform initiative in 2003.

5. Reform U.S. Export Control Policy.

Export controls and trade sanctions cost \$20 to \$40 billion in lost exports per year, or roughly 400,000 jobs⁴. In addition, they place severe and often outdated limitations on U.S. high-tech manufacturers (e.g. machine tool builders) selling "dual use" products (with mainly commercial but also potential military applications) to key foreign markets. Our key international competitors have no

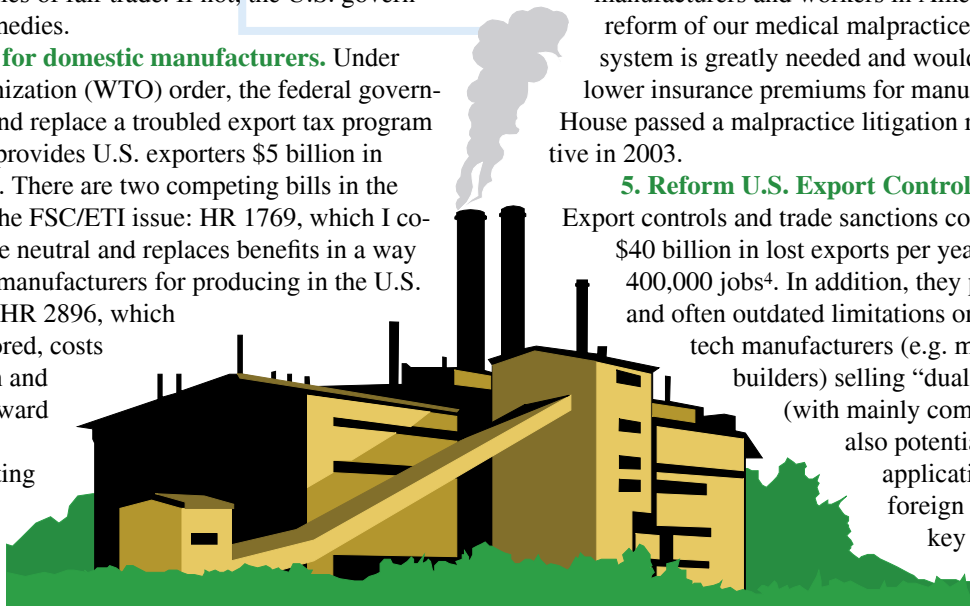
such limitations and take away many high-value sales from our manufacturers. Complicating the matter is the routine practice of U.S. agencies to use visa policy to unduly restrict access to the U.S. for foreign customers, tourists and others seeking to do business here. Congress must pass export-control legislation that will ensure our national security while allowing our manufacturers to compete for international contracts.

6. Expand SBA programs to small manufacturers.

The Small Business Reauthorization and Manufacturing Revitalization Act of 2003 (H.R. 2802), which I authored, makes several changes to SBA programs so they are more useful for small manufacturers. This bill raises maximum loan limits in several of the SBA loan programs for manufacturers. It revises the Act's procurement section to encourage federal agencies to do more business with small manufacturers. In addition, the legislation enables small manufacturers to battle import competition through an expanded international loan program.

America's Jobs First

My message to America's CEOs is to put America's jobs first. U.S. multinational firms should put America's jobs first (AJF) by actively soliciting competitive American small business suppliers for their global supply chains. The



benefits of AJF include having higher quality American inputs in their products, saving and creating American jobs, and recovering political support for free trade. This will improve multinationals' bottom lines for two simple reasons: First, multinationals depend on the expansion, protection and safety of overseas markets created and sustained by trade-friendly U.S. policies which, in turn, depend entirely on public support for free trade. Second, any costs associated with AJF can be offset by redirecting some of the \$1.5 billion in reported annual lobbying expenditures and part of the corporate advertising budget to assess and advertise U.S. opportunities in supply chains.

Conclusion

Americans need jobs, and these are a few actions Congress and the administration can take to stem the vast outsourcing practices of U.S. corporations, which are putting Americans on the unemployment lines in massive numbers. It is crucial that U.S. corporations stop exporting our high-paying jobs to other countries. Our continued prosperity depends on keeping Americans working. To do so, we must ensure that America keeps manufacturing.

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and operated a grocery store and eventually established the family restaurant, Manzullo's Italian Villa, which is still run by his brother.

Donald Manzullo earned his Bachelor of Arts degree at American University in Washington DC. During that time, he worked for the U.S. House of Representatives and as a stringer reporter for several Illinois newspapers. After earning his Juris Doctor degree from Marquette University Law School in Milwaukee, WI, he returned to Illinois to practice law, representing people that had been adversely affected by various governmental agencies. In 1992, he was elected to the U.S. House of Representatives, his first elected office. Readers may contact his office by phone at (815) 394-1992 or e-mail at campaign@manzullo.org.



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