





Manufacturing in America

A Comprehensive Strategy

By **Donald L. Evans**

Secretary, U.S. Department of Commerce

America's manufacturing sector is a cornerstone of the American economy. Throughout the history of our nation, America's manufacturers have embodied the best in American values, and their work is a centerpiece of the entrepreneurial spirit that continues to lead the United States into the 21st century. Our dynamic and vibrant economy is the envy of the world, and our top-notch work force sets the global standard for productivity. However, maintaining and enhancing America's qualitative, innovative, and competitive advantages requires a focused effort by government. We need to understand the challenges that U.S. manufacturers face and implement the right policies to strengthen this vital sector of our economy.

Before becoming president, George W. Bush was a businessman and an entrepreneur. He knows that having a job is central to the American dream, and he knows how tough economic times can make running a business more challenging. President Bush is committed to making sure that every American who wants to work can find a job. Fulfilling that commitment requires that we continue to build a healthy and strong national economy, an economy that provides the right climate for innovation and opportunity that American businesses need to flourish. Additionally, we must reach out to other nations as trading partners and expand the opportunities for American companies to sell across borders. Some might see these two goals as being unrelated to each other, but American

manufacturers understand that achieving both is crucial to succeeding in today's global economy.

By the time President Bush took office in 2001, the nation had entered its first economic downturn in a decade. While the economy as a whole felt the effects of the slowdown, those working in the manufacturing sector were hit hardest. President Bush responded to the sluggish economy by adjusting fiscal policy to stimulate overall growth. The President's policies were the right medicine. The proof can be found in recent positive leading economic indicators, rising business investment, decreasing unemployment, broad strengthening in fundamental areas of our economy, and the stock market's rise since the end of 2003.

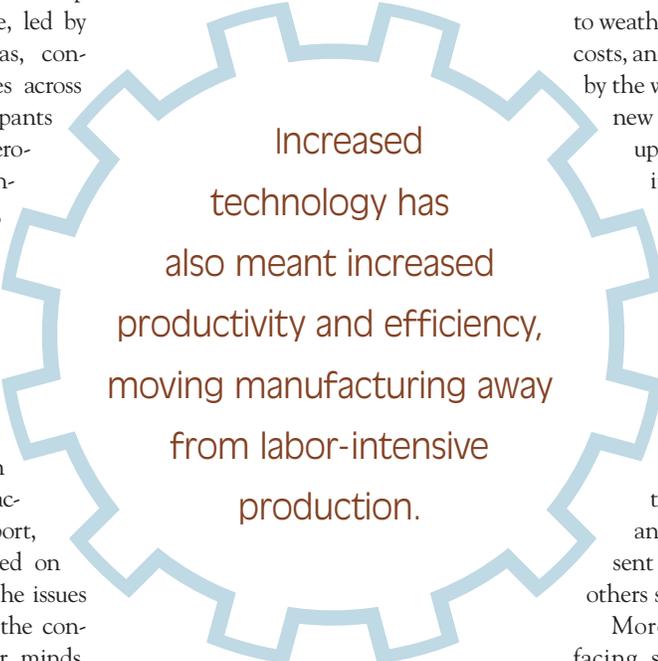
SPECIAL
REPORT

However, unlike most previous recessions, even though the economy began to expand, U.S. manufacturers continued to experience job losses. The President was very concerned and asked me to determine whether the federal government was doing everything it could to help manufacturers expand business and function at full capacity. That question prompted a nearly yearlong effort to reach out to the manufacturing sector and find out what the government could do to help make America's manufacturers more competitive domestically and internationally.

During 2003, the senior leadership of the Department of Commerce, led by Under Secretary Grant Aldonas, conducted more than 20 roundtables across the country. Roundtable participants included representatives from aerospace, auto and auto parts, biotechnology, semiconductor, chemical, pharmaceutical, plastics, and tool and die industries, among others. Participants identified existing obstacles and brainstormed with Commerce Department staff to develop short- and long-term solutions to the issues facing U.S. manufacturers. The lessons drawn from our discussions with manufacturers are summarized in our report, *Manufacturing in America*, released on January 16. The report discusses the issues facing manufacturers and details the concerns that are foremost on their minds. It includes more than 50 separate recommendations designed to address the challenges identified by U.S. manufacturers. The comprehensive report chronicles the obstacles that manufacturers face domestically and internationally. It also takes stock of the recent growth of the American economy and the continued strength of our manufacturing sector. American workers continue to be the most productive in the world, and our economic future is filled with promise. Increased competition has spurred American workers to innovate and produce better products and has helped

American businesses remain competitive in the global marketplace.

However, in the United States, we often take manufacturers' contributions to our economy for granted. We easily forget that they produce the paper we use to write on, the stoves we use to cook, and the technology we use to power our personal computers. In 2001, the manufacturing sector contributed nearly 14 percent of the nation's GDP. Standing alone, the U.S. manufacturing sector would represent the world's fifth-largest economy—greater than the entire economy of China.



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Although U.S. manufacturers have many strengths, the Bush administration recognizes that manufacturers are grappling with a changing marketplace. President Bush and the men and women at the Department of Commerce intend to work closely with American workers and businesses to ensure that American manufacturers have the opportunity to compete and succeed, both at home and abroad. There are things that the government can and should change now, and there are seeds we must also

sow today, so that Americans can reap immediate and long-term benefits. It is important to remember that while the manufacturing sector has been having trouble, its problems are not insurmountable. We have heard their concerns, and this administration intends to implement the improvements manufacturers suggested. We are in this together.

SEEING THE ECONOMY IN CONTEXT

The manufacturing sector is still feeling the effects of the recent economic downturn. Businesses of all varieties attempted to weather the storm by cutting all possible costs, and for many, capital investments fell by the wayside. This meant that orders for new machinery were put on hold, and upgrades in computer programs and infrastructure were postponed. Consequently, manufacturers suffered domestically. Further, American manufacturers were unable to make up declining domestic profits by selling abroad, as many of the United States' trading partners were experiencing sluggish economic growth. For some manufacturers, turning a profit began to seem like an unachievable goal. To cope, some sent manufacturing operations abroad, others shuttered production altogether.

Moreover, our manufacturers are facing structural as well as economic challenges. America's manufacturers know that leadership in innovation and technology is key to their future global competitiveness, requiring higher skills, superior problem solving, and a more thorough knowledge of math, science, or engineering. Increased technology has also meant increased productivity and efficiency, moving manufacturing away from labor-intensive production. Although many technology jobs have remained in the United States, due to our educated and highly productive work force, we cannot rest on our laurels.



Commerce Secretary Donald Evans, Labor Secretary Elaine Chao, and Treasury Secretary John Snow discuss U.S. manufacturing with factory workers at Harley-Davidson's headquarters in Milwaukee, Wis.

Photo courtesy of U.S. Department of Commerce

The global economy has been transformed in fundamental ways for all sectors including—if not especially for—manufacturing. As state-planned economies, such as China, have moved toward market economies, changes have been taking place locally, nationally, and internationally. There is a worldwide shift toward global supply chains, in which final products are comprised of parts from multiple countries. Now, more than ever, there are more companies competing not only to produce similar products, but also to become a part of the global supply chains.

Increasingly, American job seekers will be competing not simply against other Americans, but also against citizens of other nations, such as India, China, and Russia, as those countries prepare their workers for technology-based jobs. As a nation, we must make sure that our students are prepared to compete. We must train the next generation of Americans to maintain our leadership in sophisticated, technologically advanced manufacturing. Increasingly that will require more highly trained workers who are fully prepared to operate increasingly high-tech equipment.

UNDERSTANDING CHALLENGES

As I traveled across the country, the manufacturing workers and business owners I met repeatedly impressed me. I believe that manufacturers are doing a remarkable

job of innovating processes and products, increasing efficiency, and controlling costs in all the areas they can control. However, it is the areas beyond their control—in government regulation, taxes, tort liability, health care costs, energy supplies, and education—where government must help. I truly believe, as I have said publicly, that American workers can compete with their peers anywhere in the world as long as they are competing on a level playing field. Now, more than ever, it is time to set the rules straight while keeping “our side of the street clean.”

To do that, I am creating a new assistant secretary position within the Department of Commerce. This official will be the point person for the manufacturing sector. The new assistant secretary will coordinate existing government programs while implementing recommendations found in *Manufacturing in America* and any breakthrough ideas that can help the U.S. manufacturing sector surmount the challenges of today and tomorrow.

Keeping our side of the street clean means finding solutions that can be implemented within our borders to help manufacturers, by unburdening them to perform at their best. There are also solutions that could help American manufacturers compete abroad, such as engaging other nations to follow the rules and negotiating trade agreements that provide reciprocal access for U.S. goods. Reducing tariffs and other barriers to trade is also necessary to help our businesses, which

benefit from having the greatest possible number of markets open to them. Expanding foreign markets creates more opportunities for sales and the chance for growth and job creation for American manufacturers.

STEMMING GOVERNMENT REGULATIONS

American companies are strong global competitors. However, there are a number of areas in which government hinders manufacturers unnecessarily by legislating and regulating in ways that add unnecessary costs. The U.S. Congress, federal agencies, and state and local governments must be mindful of the burdens their actions impose on manufacturing competitiveness. There is no legislating in a vacuum. American businesses must be an integral part of the legislation and rule-making process, because they devote a sizable (and growing) amount of time and money complying with government regulations. These regulations are often more onerous than laws in other nations. The end result is that American companies are facing unnecessary costs and complications.

Workplace rules, environmental regulations, exploding health care costs, and unlimited tort liability all place burdens on American businesses, particularly small and medium-sized businesses, which can be crippled by compliance costs. At present, regulatory compliance costs are equal to approximately 4 percent of GDP. For small businesses, compliance amounts to spending of more than \$16,000 per employee. While some of this cost is necessary for the safety and well-being of workers and business, the costs associated with unnecessary regulations weigh heavily on small firms.

Government could help American businesses by decreasing red tape and eliminating unnecessary and costly regulations. As part of the effort to help manufacturers, the Office of Management and Budget will review federal regulations

Help with Your International Sales

INFORMATION STRAIGHT FROM THE SOURCE

National Manufacturing Week

February 23–26, 2004

McCormick Place, Chicago

U.S. manufacturers interested in expanding their export sales will learn about markets in Asia, Africa, and the Near East at this year's National Manufacturing Week. Twenty-eight U.S. Commercial Service officers will be on hand to provide export help, including the pros and cons of each market and the best prospects for U.S. manufacturing.

Interested in learning about new export markets?

U.S. manufacturing exporters interested in one-on-one meetings with these commercial officers may schedule appointments by registering on-line at www.buyusa.gov/eme/nmw.html. The officers are based at U.S. embassies and consulates and advocate U.S. interests abroad, most often working with U.S. companies to increase export sales.

Visit the U.S. Export Pavilion

The officers' export counseling is joined by the U.S. Export Pavilion, a multi-agency exhibit at booth 4851 that offers help with export financing, shipping, and export regulations. The Commerce Department, the Small Business Administration, and the U.S. Export-Import Bank will be represented.

For more information about export assistance offered by the U.S. Department of Commerce and other agencies, please visit www.export.gov or call 1-800-USA-TRAD(E).

with an eye toward examining the impact that these regulations have on manufacturing competitiveness.

REVIEWING TAXATION

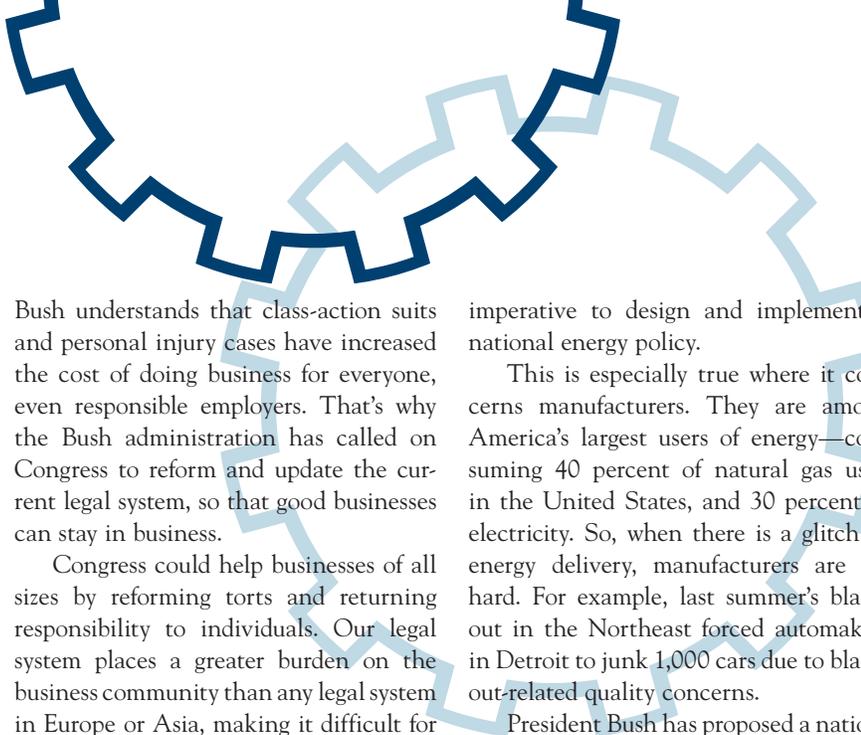
The federal government could also help substantially by examining and revising the federal tax code. The current tax system is overly complex and changes far too often to foster an investment-friendly environment. Businesses are more likely to invest in equipment and hire additional workers if the tax code is predictable and less costly. Government can help our economy create jobs by not taxing businesses in ways that distort investment decisions. Rather, the tax code should help spur investment and growth. The Department of the Treasury intends to address this weakness in our economy by offering proposals to streamline and simplify the nation's tax code.

Manufacturers noted that they appreciated President Bush's 2001 and 2003 tax cuts, which aided 25 million small business owners and quadrupled expensing limits. Small business confidence is now at a 20-year high, and third quarter 2003 GDP boomed at 8.2 percent. However, the manufacturers we met suggested that tax cuts should be made permanent, that additional cuts be made to encourage business investment, and that the research and development tax credit be made permanent to increase the certainty associated with the tax treatment of research expenditures.

INVESTING IN INNOVATION

Manufacturers remain competitive when they continue to innovate, and innovation depends on research and development spending. It is also a truism of business planning that decision-makers are more likely to allocate money for research and development activities if there is a level of confidence in the stability of the political and economic climate.

Many manufacturers expressed regret that the federal government has placed less emphasis on generic science and engineering research. In a reversal of the equation from 50 years ago, manufacturers now invest more in research and development than the government does. The United States has had a rich history of public-private research sharing. The private sector was able to utilize research at the Department of Defense and NASA for early-stage innovations that propelled the development and improvement of consumer products, such as the personal computer. To encourage more research and development into future innovations and to provide manufacturers with the tools they need to stay ahead of the innovation curve, we plan a thorough review of research and development programs. We also plan to establish a new interagency working group to serve as a forum for resolving issues associated with manufacturing research and development policy and programs.



KEEPING HEALTH CARE WITHIN REACH

Health care came up repeatedly as a source of worry for many business owners. Manufacturers told us that they prefer to provide health care for their employees, as it creates a work environment filled with more satisfied and healthier workers. However, health care costs are spiraling higher every year. These costs make it ever harder to provide health insurance for all employees. It is instructive to look at the escalation in health care costs since 1988. In 1988, health care was 8.8 percent of GDP. In 2000, it was 13.2 percent, and it is expected to hit the 16-percent mark within five years.

As the cost of insuring an employee becomes increasingly burdensome each year, businesses end up struggling to take care of their employees, let alone retirees to whom they owe compensation. A 2003 Kaiser Family Foundation study found that large corporations are increasingly cutting retiree benefits or increasing premiums as a way to remain solvent. For new employees, the future holds less generous health benefits while serving a particular company and in retirement.

The historic Medicare reform law passed late last year should help businesses, both large and small. Secretary Tommy Thompson and his staff at the Department of Health and Human Services have worked hard to reform this nation's health care system to help all Americans, including those who work in the manufacturing sector. However, more can be done. Enacting association health plans, promoting health savings accounts, and passing medical liability reform are just a few of the recommendations we intend to pursue to make health care more affordable and accessible to more workers.

REFORMING LEGAL EXCESSES

Manufacturers also pointed to junk lawsuits as a growing expense. President

Bush understands that class-action suits and personal injury cases have increased the cost of doing business for everyone, even responsible employers. That's why the Bush administration has called on Congress to reform and update the current legal system, so that good businesses can stay in business.

Congress could help businesses of all sizes by reforming torts and returning responsibility to individuals. Our legal system places a greater burden on the business community than any legal system in Europe or Asia, making it difficult for American businesses to compete globally. The current system increases insurance premiums for all U.S. businesses, which hurts individual companies and is a growing drag on GDP. Lawsuits currently cost \$809 per year for every American—real money for working parents struggling to make ends meet.

The current system's fabric has loopholes that are used to abuse the system. Rather than ensuring victims are compensated and businesses act responsibly, too often the system serves the needs of trial lawyers.

President Bush proposed, and the U.S. House of Representatives approved, tort reform that would reduce the burden on our courts and businesses. Now it is time for the Senate to take action. The President's reforms ensure that most of the rewards in class-action lawsuits go to victims—not lawyers.

ESTABLISHING A NATIONAL ENERGY POLICY

Before joining the Bush administration, I spent 26 years working in the oil and gas industry in Texas. I understand the importance of energy to our nation's economic and national security. Businesses cannot plan and grow if they do not have a stable and affordable source of energy.

For years, we have depended upon a patchwork solution to our energy needs. But as our consumption has grown—and outpaced our production—it has become

imperative to design and implement a national energy policy.

This is especially true where it concerns manufacturers. They are among America's largest users of energy—consuming 40 percent of natural gas used in the United States, and 30 percent of electricity. So, when there is a glitch in energy delivery, manufacturers are hit hard. For example, last summer's blackout in the Northeast forced automakers in Detroit to junk 1,000 cars due to blackout-related quality concerns.

President Bush has proposed a national energy plan to upgrade America's electrical grid, promote energy efficiency, increase domestic energy production, and provide enhanced conservation efforts, all while protecting the environment. President Bush's plan expands research and development of alternative fuels and renewable energy sources, as well as expanding natural gas production. Congress must help America's manufacturers by passing the President's comprehensive energy plan.

TRAINING A WORLD-CLASS WORK FORCE

America's manufacturers compete in a global marketplace. Businesses regularly operate across borders and time zones, selecting the best employees from anywhere in the world. For the United States to remain competitive, we must continue to train a world-class work force for the 21st century.

Modern manufacturing jobs require workers to have a high-level of problem-solving skills. A high school degree is no longer sufficient for many manufacturing jobs. America's public schools need to do a better job of preparing students. Colleges and universities should be turning out more students with science and engineering degrees if we are to continue to compete on the global level and succeed.

To strengthen our work force, in his State of the Union address, President

Manufacturing in America:

THE FULL REPORT

On January 16, at an event held at Lincoln Electric Co. in Cleveland, Ohio, Secretary of Commerce Donald Evans announced the release of *Manufacturing in America: A Comprehensive Strategy to Address the Challenges to U.S. Manufacturers*. This 88-page report examines the current state of the U.S. manufacturing sector, reports on the views expressed by participants at the more than 20 manufacturing roundtables that were held throughout the country in 2003, and outlines the Bush administration's plans for supporting growth in this vital sector of the economy.

The full text of *Manufacturing in America* is available for downloading as an Adobe Acrobat file from the Commerce Department's Web site at www.commerce.gov/DOC_MFG_Report_Complete.pdf. Printed copies of the report are available for purchase from the U.S. Government Printing Office for \$12 each, including shipping. To purchase a copy, visit the U.S. Government Online Bookstore at <http://bookstore.gpo.gov> or call the GPO sales desk toll-free at (866) 512-1800 (from the District of Columbia, call (202) 512-1800). Ask for publication number 003-009-00732-1.

Bush announced his initiative, Jobs for the 21st Century initiative—a comprehensive plan to better prepare workers by strengthening post-secondary education and job training and improving high school education. The plan includes more than \$500 million in new funding for education and job training programs.

The President is also improving America's elementary schools thanks to the No Child Left Behind Act of 2001. The No Child Left Behind Act increases federal funding for education and mandates standardized testing to ensure that every child in America is learning. The Bush administration has additionally proposed \$1 billion in targeted spending to expand and enhance math and science education over the next five years.

The Department of Commerce is collaborating with the Department of Education and Department of Labor to address education for students who are still in school, as well as continuing education and worker training and re-education efforts. Commerce Department staff will work with the Department of Labor to ensure that comprehensive employment centers address the needs of the changing work force. We will also work with the Department of Education to make sure that Americans are equipped with the educational tools they need to succeed in the changing workplace.

ENGAGING THE WORLD

American workers are the best in the world—we can succeed in any global market, as long as we are able to compete on a level playing field. NAFTA and the World Trade Organization have opened markets for Americans. But more must be done. Under President Bush's leadership, the Commerce Department is working with U.S. Trade Representative Robert Zoellick to negotiate bilateral and multilateral trade agreements. Opening markets to American products

benefits our manufacturers, who see foreign markets as having great potential for their growth.

Going forward, the Department of Commerce will also put more vigor into monitoring and enforcing trade agreements and cracking down on unfair trade practices to make sure barriers are not levied against American products. We must be especially vigilant with intellectual property laws—the lifeblood for successful manufacturers. Loose adherence to laws protecting such innovations harms American businesses and discourages innovation.

Fair competition benefits everyone, because it leads to innovation, which leads to greater productivity, which leads to higher standards of living. When market forces are allowed to operate freely, high quality products will be sought after and properly compensated. However, when a government interferes with markets, competition suffers.

PLANNING THE NEXT STEPS

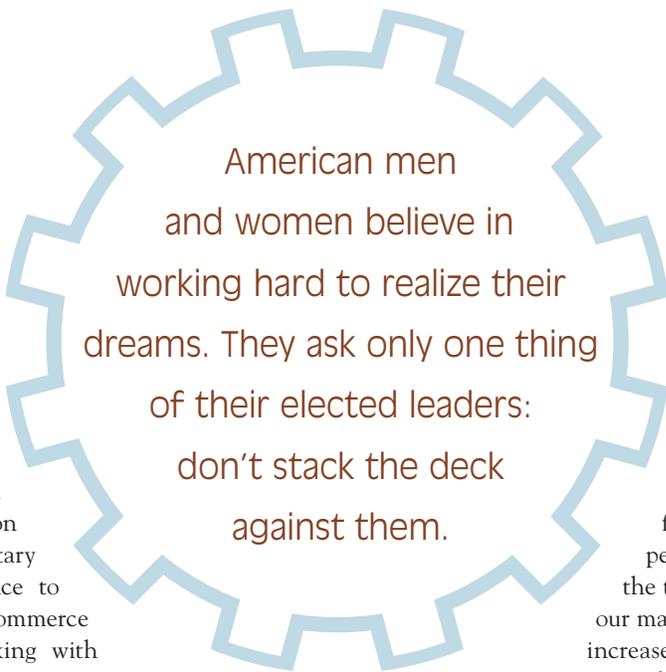
In addition to the creation of an assistant secretary to serve as the point person for manufacturing and services, the Department of Commerce has also called for the creation of an office of industry analysis, which would support the new assistant secretary and analyze the economic impact of proposed regulations on manufacturers' competitiveness. The assistant secretary would have additional support from a new interagency group, the President's Manufacturing Council, which would be chaired by the Secretary of Commerce. This new council would be a forum for federal agencies to coordinate, brainstorm, and tackle various obstacles that may arise.

American men and women believe in working hard to realize their dreams. They ask only one thing of their elected leaders: don't stack the deck against them.

Strengthening American manufacturing requires an ongoing partnership

between government and business. We must work together to identify burdensome regulations, reduce taxes, and open markets.

At the Department of Commerce, we're working to unleash the entrepreneurial spirit in every American. Soon we will have an assistant secretary to oversee issues of importance to the manufacturing sector. Commerce Department officials are working with our counterparts at the Departments of Education and Labor to make sure that we have a well-trained, qualified American work force that is up to the tasks and opportunities that the manufacturing community offers today and will offer tomorrow. We will work with the Department of the Treasury on tax-related issues, and with the Department of Health and Human Services to manage health care costs, and with EPA Administrator Mike Leavitt to review



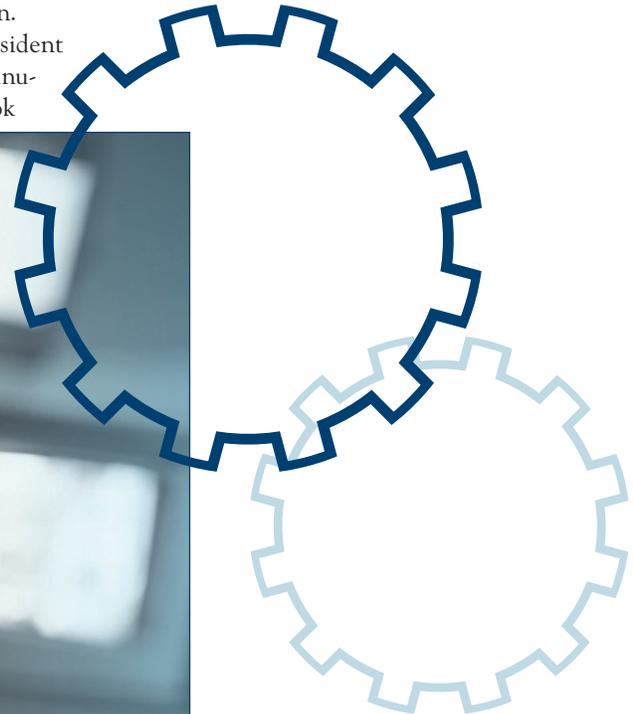
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environmental regulations that affect manufacturers. We will also be working hard to increase and improve America's technological leadership while opening markets and protecting intellectual property. It's time to be creative and face the changing world with new solutions and a stronger determination.

Thanks to President Bush's leadership, manufacturers can look

forward to more markets and less governmental interference. We are in a moment of transition, but I believe that our economy has turned the corner. There are far more opportunities than challenges ahead, and the American work force is strong and ready to compete in the global economy. Now is the time for government to work with our manufacturers, to reduce their costs, increase their resources and markets, strengthen their work force, and sharpen our focus on their success.

I hope you will work with your advocates at the Department of Commerce in the year ahead as we work to unleash American manufacturing might. ■



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