

Lowering the Cost of Manufacturing in the United States

As manufacturers made clear in every roundtable discussion, to make the United States an attractive place to invest in manufacturing, government must reduce the costs it imposes on manufacturers. The following recommendations outline steps that the government should immediately take to bring down the cost of manufacturing in the United States, including regulatory, energy, legal, healthcare, and pension costs.

Reduce the Cost and Improve the Availability of Healthcare

Healthcare costs represent the largest and fastest rising costs faced by U.S. manufacturers. These costs are also least within their control to manage. Manufacturers have a vested interest in the health of their employees. Building on the historic Medicare reforms signed into law by President Bush, the following actions would help reduce the burden of providing this care:

Establish Association Health Plans

As President Bush has endorsed, Congress should pass legislation to create and fund association health plans. Such plans would afford small business manufacturers greater leverage in negotiating the cost of health insurance with providers. That leverage would translate into lower healthcare costs and improved cost competitiveness.

Promote Health Savings Accounts

Health savings accounts (HSAs) were established in the Medicare prescription drug bill signed by the President on December 8, 2003. HSAs combine high-deductible health insurance plans with tax-free savings accounts that can be used to pay for medical expenses incurred by employees and their families. Under HSAs,

year-end balances can be rolled over, encouraging employees to be more cost-conscious and giving them both an incentive and the means to save for future health-care needs.

Accelerate the Food and Drug Administration's Review of New and Generic Drugs

In addition to the FDA's broad efforts to speed the development of safe, innovative, and low-cost new health treatments, the FDA continues to expedite the review of generic drugs in order to make lower-cost prescription drugs available to consumers. The administration has increased funding for generic drug reviews by over 35 percent over the past two years, allowing the FDA to establish ambitious new performance targets for reducing review times for generic drugs. Continued FDA performance improvements will allow new and generic drugs to reach the market more quickly, resulting in lower prices for prescription drugs available under employer health plans.

Implement New Technologies to Prevent Costly Medical Errors

To ensure medical treatments are being used as effectively as possible and to prevent costly adverse events, the healthcare industry should adopt and implement 21st century technologies such as bar coding of medical products and electronic prescribing.

Enact Medical Liability Reform

Congress should enact legislation making the medical liability system fair, predictable, and timely. Reforms should include the adoption of standards that ensure that injured patients are compensated fully and quickly for their economic losses, while limiting recoveries for non-economic damages to a reasonable amount.

Taken together, these steps would significantly reduce the current burden that high healthcare costs impose on U.S. manufacturers, particularly those small and

medium-sized businesses that make up the bulk of the U.S. manufacturing sector.

Modernize the U.S. Legal System to Eliminate Disincentives to Invest in Manufacturing

The U.S. legal system discourages investment in manufacturing by raising the risk and cost associated with manufacturing. There are three steps Congress should immediately take to lift the disincentives for investment in manufacturing that the current system of tort liability creates:

Enact Class-Action Reform

Congress should enact a common sense class-action system through the passage of a consumer "class-action bill of rights" that would, among other provisions, require notice of a lawsuit to class members in understandable terms, require judicial review of settlements that give class members only non-cash benefits, and prohibit a court from approving a settlement that discriminates among plaintiffs.

Enact Asbestos Reform

Litigation is an enormously expensive means of compensating those injured by the use of asbestos in construction prior to the 1970s. Because asbestos is no longer being used in construction, class-action lawsuits no longer serve even a deterrent purpose. Congress should enact legislation resolving the current class-action litigation on asbestos. The asbestos litigation continues to dampen investment in manufacturing. Passage of legislation that will ensure compensation for those actually injured and stop litigation that destroys jobs is critically important.

Make the Medical Liability System Fair, Predictable, and Timely

The most significant step government should take to improve the medical liability system and reduce its costs to U.S.

manufacturers would be to adopt standards that ensure injured patients are compensated fully and quickly for their economic losses, while limiting recoveries for non-economic damages to a reasonable amount.

In addition, the administration and Congress should undertake a long-term effort to ensure an appropriate balance in the tort system between plaintiffs' and defendants' interests. As questions of tort liability are frequently adjudicated at the state level, any such effort would ultimately require close cooperation with the states to ensure the best approach and a higher degree of consistency.

Reduce the Costs of Regulation and Legislation

The cost of regulation on the U.S. economy has been the subject of ongoing reviews since the late 1970s. OMB reviews of proposed regulations, and statutes such as the Paperwork Reduction Act, have contributed to that effort. In addition, the Bush administration has slowed the increase in regulatory costs produced by new regulations reviewed by OMB by 70 percent compared with the previous administration.

Nonetheless, overall, the cost of regulatory compliance has risen significantly over time. To combat these rising costs, OMB should lead a comprehensive three-step process to reduce the burden of regulation on manufacturing enterprises:

Establish an Inventory of Potential Regulatory Reforms that Would Lower the Cost of Manufacturing

To establish an inventory of potential reforms that would reduce the cost of compliance on the manufacturing sector, OMB should seek public comment on existing rules and afford the opportunity to propose particular reforms. The request for public comment and the nomination of reforms should address existing regulations, guidance documents, and paperwork requirements.

Conduct an Analysis of the Inventory

OMB should, in coordination with the Council of Economic Advisers, the Commerce Department, and other agencies, evaluate the proposed reforms and, where appropriate, implement those reforms on a priority basis. This evaluation should include an assessment of the cost of compliance and the economic impact of current rules, particularly on small and medium-sized businesses, as well as the cost to the taxpayer and to the consumer of administering those regulations. The objective of the review should be to determine whether there might be a less costly means of achieving the benefits Congress intended by authorizing such regulations. That analysis should extend to the agencies that implement the rules as well. This effort could involve broadening the analysis done under section 610 of the Regulatory Flexibility Act, which currently applies to small businesses.

Conduct a Regulatory Impact Analysis of New Rules

Lastly, OMB should rigorously apply its recently developed guidance on regulatory impact analysis to any proposed rules that would influence the costs imposed on the manufacturing sector, particularly as they affect small and medium-sized businesses. As a part of this effort, the newly established assistant secretary for manufacturing and services should task the new Office of Industry Analysis to work with OMB and other agencies to refine the analytical tools needed to assess the impact of proposed rules and regulations on economic growth and job creation in the manufacturing sector and other areas of the economy.

Enact a Comprehensive Energy Plan That Encourages Conservation, Improves Infrastructure, and Expands Domestic Production

According to the National Association of Manufacturers, about one-third of the United States' energy, including 40 percent of the natural gas and 30 percent of the electricity, is consumed by manufacturers. Energy shortages, price spikes, and blackouts disrupt the economy; discourage investment in energy-dependent manufacturing industries, such as chemicals and plastics; and inhibit manufacturers in those sectors from planning with confidence and hiring new workers.

Given the significant increase in U.S. energy costs, enacting a comprehensive plan to encourage conservation, improve infrastructure, and expand domestic production is fundamental to the future of American manufacturing. Adopting a comprehensive energy plan, particularly one that addresses the need for expanded natural gas production and distribution, would help reduce the cost in some manufacturing sectors considerably. Such action would offer a particular benefit to those manufacturing industries, such as plastics, that depend on natural gas both as a source of power and as an input into their manufactured goods.

President Bush has proposed a comprehensive national energy policy that would, if enacted by Congress, modernize and expand our electricity infrastructure, modernize and increase conservation and energy efficiency, ensure a clean and affordable diversity of fuels for producing electricity, increase domestic energy supplies, and increase the development and deployment of new technology.

In short, Congress should pass President Bush's energy plan to reduce the cost of energy to U.S. manufacturers. From the perspective of U.S. manufacturers, the

most important steps that President Bush has proposed and on which Congress should act are:

Increase Electricity Supply and Modernize the Legal Framework Governing Electricity Production

Congress should modernize the legal framework governing electricity production and transmission to lessen the chance of disruptive blackouts and ensure the delivery of ample and affordable supplies of electricity. The provisions should establish mandatory and enforceable reliability standards, encourage expanded investment in transmission and generation facilities, eliminate transmission bottlenecks, reform outdated laws, promote open access to the transmission grid, promote regional planning and coordination, protect customers, and help develop new technologies.

Facilitate Adequate and Economical Supplies of Natural Gas

Congress should facilitate adequate and economical supplies of natural gas by eliminating the regulatory obstacles to the development of natural gas resources on federal land and to the construction of liquefied natural gas terminals and other infrastructure, simplify the permit process and facilitate the construction of an economically viable natural gas pipeline from Alaska, and encourage additional deep-well gas development on the outer continental shelf.

A Clean and Affordable Diversity of Fuels for Electricity Production

Congress should moderate future demand growth for natural gas by ensuring a future for clean-burning coal and nuclear power, and providing tax incentives to increase the production of electricity from renewable sources such as wind, solar, biomass, and landfill gas.

New Technology

Congress should encourage further research and development in new energy technology, particularly the funding of President Bush's hydrogen fuel initiative to develop technology for commercially viable hydrogen-powered fuel cells and a new generation of hydrogen powered vehicles to help reduce U.S. dependence on foreign oil.

Promote Pension Reform

The administration will work with Congress to make fundamental changes in the funding rules that will put underfunded plans on a predictable, steady path to better funding. Improvements in the funding rules should set stronger funding targets, foster more consistent contributions, mitigate volatility, and increase flexibility for companies to fund up their plans in good economic times. The administration will continue to work with Congress and the private sector to address this issue.