Testimony of Michael J. Coast to the Subcommittee on Technology and Innovation, House Committee on Science and Technology, March 11th, 2008

Chairman Wu, Congressman Gingrey, Members of the Subcommittee – Thank you for this opportunity to appear today. I am Michael J. Coast, President of the Michigan Manufacturing Technology Center, Michigan's affiliate of the national Manufacturing Extension Partnership. I am also the current president of the American Small Manufacturers Coalition, the trade association of the 59 MEP centers. Congressman Ehlers is already well aware of our work, as he represents the district that is home to our West Michigan office.

I testify today about the dire situation facing small and medium-sized US manufacturers, and about how the President's proposed elimination of federal funding for MEP would affect them.

There are more than 30,000 fewer small and medium-sized manufacturing plants in the US today than there were a decade ago. In Michigan, there were 16,000 such facilities in 1998; today, there are barely 13,000. Thanks to increased imports of both manufactured products and their parts, US manufacturing value-added is essentially unchanged over the past decade; in Michigan, it is quite clearly lower.

This is not some long-term, inevitable decline analogous to the job losses in agriculture during the past century. In agriculture, employment fell because of rising productivity, but real output grew, and continues to grow. No, in manufacturing, the issue is the failure of many small and medium-sized companies to perform well enough to withstand the competitive pressures of a globalized economy in which the US operations of most of their traditional customers are no longer growing. With the sharp slowdown in economic activity that began last October, the situation has become even more difficult. US manufacturing employment has plunged from 17.6 million in 1998 to barely 13.6 million in January of this year. Since last August, manufacturing has been losing an average of 60,000 jobs a month, a sharp reversal after a nearly four-year period of relative stability.

MEP centers have proven over the past decade or more that they can help these smaller manufacturers succeed despite this challenging landscape. In a typical recent year, MEP centers' clients credit their services with:

- Improving productivity in eight of every ten cases, with cost savings totaling more than $1.1 billion;
- Helping the companies served to add or retain nearly $6.8 billion in sales and 52 thousand jobs; and
- Inducing those companies to make more than $1.6 billion in additional investments.

In Michigan, my center's clients credit it with more than $100 million in new and retained sales, 956 jobs, $18 million in cost savings, and more than $30 million in induced investment during the last full year for which survey data are available.

As their traditional customers globalize, smaller manufacturers have found that they need to do more than improve quality and reduce costs to remain competitive. The MEP network has responded by developing or partnering to acquire new services that help them prospect for new customers; evaluate new markets and product concepts; and improve the way they develop and launch new products. Indeed, MEP's new catchword is "20/20" – expressing that many smaller manufacturers need not just 20% lower costs, but also 20% top-line growth. At the Michigan MEP center, services related to new customers, new markets, and new products have grown from almost nothing to about

15% of our total service portfolio. By 2010, I expect that they will exceed 25% of what we do with our clients.

Congress recognized the effectiveness of the MEP program last year when it passed the America COMPETES Act. That legislation foresaw the need not only to maintain, but to grow, MEP. Under the Act, MEP's federal funding would rise from its recent $104-106-million annual level to $122 million for FY 2009, with further increases in FY 2010 and FY 2011.

Despite MEP's track record of impact and efficiency, and ignoring the will of the Congress, the President now proposes the virtual elimination of federal funding for MEP. One can debate what the precise effect of this would be, but the main outcomes are beyond dispute. Many centers would close. Most that do not would shrink significantly, partly because many states' support for the centers is explicitly in the form of matching funds: that is, it could be withdrawn if federal funding were to end. Some have argued that smaller manufacturers could go out and buy services similar to those offered by the MEP centers from private sector consulting firms. But history shows that, without some public funding to offset the cost of outreach and sales, consultants shy away from all but the best-heeled small companies. And that's only logical: without public funds, my center and most others would also have no choice but to focus on larger manufacturers.

With your help, however, the nation can avoid this sharp reduction in services to smaller manufacturers. By turning back the President's proposal and returning to the support levels authorized by the America COMPETES Act, the Congress can save MEP and help it grow. MEP is the country's only nation program created specifically to help the US small manufacturing base and preserve its nearly 10 million good jobs. At this moment of grave risk to manufacturing and the rest of the economy, MEP brings otherwise unavailable technical expertise to tens of thousands of struggling US companies.

In closing, I urge you – on behalf of my center, the other 58 centers of the MEP network, and the nearly 340,000 small and medium-sized manufacturers across the nation -- to act to restore full funding to MEP.

Thank you.