

Introduction

American manufacturers are a cornerstone of the American economy and embody the best in American values. They enhance U.S. competitiveness while improving lives domestically and internationally.

President Bush's concern for the men and women who work in manufacturing and the critical contribution they make to the U.S. economy is the driving force behind this report. Manufacturers are full partners in the effort to build the future of the country in the marketplace for new products and ideas. Simply put, a healthy manufacturing sector is key to better jobs, fostering innovation, rising productivity, and higher standards of living in the United States.

The United States is the world's leading producer of manufactured goods. Standing alone, the U.S. manufacturing sector would represent the fifth-largest economy in the world—larger than China's economy as a whole.¹ The U.S. manufacturing sector also leads in innovation, accounting for more than 90 percent of all U.S. patents registered annually.² Investments in technology create new industries and careers in manufacturing as U.S. firms introduce products and

cutting-edge manufacturing techniques. Perhaps most importantly, productivity in manufacturing has continued to rise significantly.

Even as U.S. manufacturers engage in global competition with singular strengths, they also face unprecedented challenges. These challenges are both cyclical and structural. The most recent recession in the business cycle—a downturn that first began to be felt in 2000—hit U.S. manufacturers and their workers hardest. Output fell 6 percent in manufacturing even though the recession was relatively shallow overall. Employment fell by 2.6 million jobs in manufacturing, accounting for all of the net job losses from the fourth quarter of 2000 through the third quarter of 2003.

Today, as the overall U.S. economy expands strongly, much of the manufacturing sector continues to operate well below its previous peak. For example, while automobile production remains strong, many of the industries that support this production, such as the machine tools and tool and die industries, continue to lag behind the rest of the economy by a wide margin.

As difficult as the recession has been for U.S. manufacturers, the sector faces

even more significant structural challenges from the effects of rapidly changing technology and adjustment to a global economy. Barriers to trade have fallen rapidly over the past decade. Innovations in communications, computing, and distribution have accelerated the design, production, and delivery of goods. Improved production processes have spread rapidly throughout the world. Private investment now flows largely unimpeded across national borders as investors seek the highest rates of return. All these factors equate to unprecedented global competition for capital and markets. Because manufactured goods make up the bulk of international trade, the competition is especially strong. Taken together, the effects of technology and globalization accelerate the competitive pressures to lower costs and increase productivity.

The challenges facing U.S. manufacturers raise important questions for both industry and government. For industry, the question is how best to reinforce the sector's strengths and maintain its competitive edge in an increasingly competitive global economy. The competitive pressure on U.S. manufacturers has forced them to cut costs, to adopt lean manufacturing techniques, and to implement quality assurance programs that guarantee zero defects in production. Innovation in products, processes, and services has become a key determinant for success.

Fostering a competitive manufacturing sector also requires a different way of looking at government policy. The right policies in Washington, D.C.—and across the nation—can unleash the great potential of the U.S. economy and create the conditions for growth, prosperity, and job creation. For government, the ultimate question is whether the actions that it takes help or hinder American manufacturers as they compete in global markets. What steps should government take to

create the economic conditions that foster a healthy and competitive manufacturing sector and spur economic growth? What are the best means of removing the impediments that government action has contributed to in the form of increased energy and healthcare costs and high or distortionary tax and regulatory compliance burdens that make it harder for U.S. manufacturers to attract investment and compete? How can government policy foster an environment in which American manufacturers and their workers are the best trained in the world? And, equally important, how can America ensure that success in the global marketplace is based on economic strength, rather than on government intervention that creates artificial advantages?

The Manufacturing Initiative

In a March 2003 speech to the National Association of Manufacturers in Chicago, U.S. Secretary of Commerce Donald Evans launched the Manufacturing Initiative to begin answering those questions. Secretary Evans called for a comprehensive review of issues affecting the competitiveness of the U.S. manufacturing sector. The goal of the review was to develop a strategy designed to ensure “that the government is doing all it can to create the conditions” necessary to foster U.S. competitiveness in manufacturing and stronger economic growth at home and abroad.

Secretary Evans directed the U.S. Department of Commerce to seek the help of American manufacturers themselves in identifying the roots of the manufacturing sector's current challenges and the specific obstacles that government policy might pose to U.S. manufacturing competitiveness. To that end, the Department of Commerce held over 20 roundtable events with manufacturers, in which the advice of individual attendees was sought and obtained. These nationwide discussions included representatives from the aero-

space, auto and auto parts, biotechnology, semiconductor, chemical, pharmaceutical, plastics, and tool and die industries, among others. The manufacturers attending the roundtables represented a broad mix of small, medium-sized, and large companies, as well as minority-owned and women-owned enterprises.

To demonstrate Secretary Evans' commitment to meeting the challenges facing the manufacturing sector, the Commerce Department's senior managers led the roundtables,³ with help from the Commerce Department's local Export Assistance Centers and private sector District Export Councils. Commerce Department industry specialists attended the roundtables to listen to and report on the discussions to Commerce Department leaders, thus ensuring follow-up action with any companies needing information or assistance.

In addition, the Commerce Department set up a Web site to gather and disseminate information regarding the initiative as broadly as possible. This Web site—www.export.gov/manufacturing—was used to provide information on events and activities, and to encourage those who could not attend the roundtables to contact the Commerce Department regarding manufacturing issues.

The process also benefited from discussions with industry association representatives who reflected a broad cross-section of the American manufacturing community. The Commerce Department received considerable help from both the personnel and member companies of the National Association of Manufacturers, Manufacturers Alliance/MAPI, Association for Manufacturing Technology, Society of Plastics Industries, Alliance of Automobile Manufacturers, National Tooling and Machining Association, American Forest and Paper Association, American Furniture

Manufacturers Association, Motor and Equipment Manufacturers Association, Aerospace Industries Association, Association of Equipment Manufacturers, American Foundry Society, American Forest Products Association, and others.

The following report is divided into three chapters. The first chapter provides an overview of the domestic and international economic issues facing American manufacturing and identifies the powerful trends shaping the environment in which U.S. manufacturers compete today.

The second chapter draws on the experience of U.S. manufacturers themselves in identifying the challenges government must tackle. Small, medium-sized, and large manufacturers all stated that the first priority should always be to eliminate government policies and practices that hinder U.S. competitiveness. They identified immediate priorities such as spurring higher economic growth and creating incentives for investment, including research and development, as well as long-term efforts such as the reliability of energy supplies, reducing healthcare costs, and tort reform needed to reduce the indirect costs imposed on manufacturers by government action or inaction.

On the international front, manufacturers stressed the importance of breaking down the barriers that other governments erect against U.S. exporters and eliminating the practices that distort trade and investment. With respect to both finance and trade, manufacturers stressed that the goal of U.S. foreign economic policy should be to ensure that competition is free and fair. They also emphasized the need to reinforce U.S. trade promotion efforts in markets opened by recent trade agreements, particularly in China.

Manufacturers also emphasized the importance of looking to the future and investing in activities that have given U.S. manufacturers their competitive edge. In practical terms, that means ensuring that government does not impede

the development of new technologies that will create the industries and jobs of the future, as well as improving the competitiveness of America's existing manufacturing base. Manufacturers stated that this effort would require government research and development funding and the creation of a highly educated and motivated workforce.

The third chapter of this report sets out a series of recommendations designed to address the challenges identified by U.S. manufacturers. The recommendations represent a first step toward crafting the comprehensive strategy Secretary Evans called for in March 2003.

The recommendations respond to the call by U.S. manufacturers for a greater focus within the federal government on manufacturing competitiveness, including the creation of an Assistant Secretary of Commerce for

Manufacturing and Services. President Bush announced on Labor Day 2003 that the creation of this position would help keep the federal government focused on issues relating to manufacturing and would drive the Manufacturing Initiative forward. The recommendations also address the challenges identified by U.S.

manufacturers on both the domestic and international front, as well as reinforcing American manufacturing's competitive edge in the development of new technologies and a workforce that can meet the needs of modern manufacturing.

These recommendations represent the start of a process, not the end. From the outset, Secretary Evans has viewed this report and its recommendations as an opportunity to work closely with U.S. manufacturers to develop a sound strategy for American competitiveness in manufacturing. The Commerce Department intends to review these proposals

with manufacturers across the country, to address the challenges identified, and to help set immediate priorities that will benefit American manufacturing.

In the meantime, the challenges confronting American manufacturers and manufacturing workers are urgent, and President Bush has already taken action. He has implemented a jobs and growth agenda and outlined a six-point plan:

1. To make healthcare costs more affordable.
2. To reduce the lawsuit burden on the U.S. economy.
3. To ensure an affordable, reliable energy supply.
4. To streamline regulations and reporting requirements.
5. To open markets for American products.
6. To enable families and businesses to plan for the future with confidence.

The necessity of acting on these reforms was reflected in the roundtable discussions: each proposal would improve the U.S. manufacturing sector's competitiveness in the years and decades to come.

One final point deserves emphasis. Despite the challenges faced by American manufacturing, there is one fundamental reason for optimism about the future of American manufacturing: the talent and motivation of the men and women who work in and manage America's manufacturing companies. More than anything else, manufacturers participating in the Commerce Department's roundtables expressed their commitment to roll up their sleeves and address the challenges they face in doing business in an increasingly global and competitive environment. American manufacturers are enthusiastic about meeting the competition, but they need a fair international playing field and a domestic environment free from impediments to investment and growth. This

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report and its recommendations represent a commitment on the part of the Bush administration to foster an environment for the continuing success of American manufacturing.

Notes

¹ See "Total GDP 2002," World Development Indicators database, World Bank, July 2003.

² Jeff Werling, *The Future of Manufacturing in a Global Economy*, December 2003.

³ They included Secretary Donald Evans; Deputy Secretary Samuel Bodman; Under Secretaries Grant Aldonas, Philip Bond, and Kathleen Cooper; Assistant Secretaries Linda Conlin, Bruce Mehlman, and David Sampson; Directors Arden Bement, Ronald Langston, and John Maxon Ackerly; and Deputy Assistant Secretaries Joseph Bogosian, Kevin Murphy, and Michelle O'Neill. Officials of the U.S. Department of Labor (including Assistant Secretary Emily DeRocco) co-hosted a roundtable focused specifically on workforce, education, and training issues, to which the U.S. Department of Education contributed as well.

Abbreviations and Acronyms

FDA	Food and Drug Administration
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
HSA	health saving account
IRC	Internal Revenue Code
ITA	International Trade Administration
ITC	International Trade Commission
MEP	Manufacturing Extension Partnership
NAFTA	North American Free Trade Agreement
NAM	National Association of Manufacturers
NIST	National Institute of Standards and Technology
NTMA	National Tooling and Machining Association
OECD	Organization for Economic Cooperation and Development
OEM	original equipment manufacturer
OMB	Office of Management and Budget
ONR	Office of Naval Research
OSTP	Office of Science and Technology Policy
PCAST	President's Council of Advisors for Science and Technology
R&D	research and development
R&E	research and experimentation
SBA	Small Business Administration
SBIR	Small Business Innovation Research
STTR	Small Business Technology Transfer
TRIPS	Agreement on Trade-related Aspects of Intellectual Property
TPCC	Trade Promotion Coordinating Committee
TPSC	Trade Policy Staff Committee
USPTO	U.S. Patent and Trademark Office
USTR	Office of the U.S. Trade Representative
WTO	World Trade Organization