



The Committee on Energy and Commerce

Memorandum

February 12, 2013

To: Members of the Subcommittee on Commerce, Manufacturing, and Trade

From: Majority Committee Staff

Re: Hearing on “Our Nation of Builders: Manufacturing in America”

On Thursday, February 14, 2013, the Subcommittee on Commerce, Manufacturing, and Trade will convene a hearing at 10:00 a.m. in room 2322 of the Rayburn House Office Building entitled “Our Nation of Builders: Manufacturing in America”. This is the first in a series of planned hearings examining the domestic manufacturing industry. Witnesses are by invitation only.

I. Witnesses

Harold Arnold
President
Fram Renewable Fuels

Joseph K. Block
Vice President of Sales
Block Steel Corporation

Bob Holler
Director
Global Respiratory Protection Business
3M

Eric R. Meyers
President
Oil City Iron Works

Ron Saxton
Executive Vice President
JELD-WEN

Jeff Smatsky
Factory Manager
Zephyrhills

James R. Steiner
Senior Vice President, Specialty Materials
Corning Incorporated

Rick Yuse
President, Space and Airborne Systems
Raytheon Company

II. Summary

The United States is the world leader in manufacturing with the world’s largest manufacturing economy, producing 18.2 percent of global manufactured products.¹ According to the National Association of Manufacturers (NAM), the manufacturing sector supports nearly

¹ See National Association of Manufacturers, *Facts About Manufacturing* (visited Feb. 12, 2013) <<http://www.nam.org/Statistics-And-Data/Facts-About-Manufacturing/Landing.aspx>>.

one in six jobs – jobs that, on average, pay over \$77,000 with benefits.² Nationwide, manufacturing employs nearly 12 million Americans,³ and more than half of those Americans reside in States represented by Members of the Subcommittee on Commerce, Manufacturing, and Trade,⁴ creating a total economic output of over \$1 trillion.⁵

In addition to supporting the highest paying jobs in the U.S. economy, manufacturing has one of the strongest multiplier effects in the economy: every \$1 in direct spending produces \$1.35 in additional indirect output.⁶ Conversely, each manufacturing job lost results in the loss of another 2.3 other jobs.⁷

The manufacturing sector was hit hardest in terms of job losses during the Great Recession and has seen only a modest turnaround. While manufacturing jobs account for one tenth of the nation's jobs, the manufacturing sector suffered a third of the nation's job losses.⁸ As of January 2013, the Bureau of Labor Statistics (BLS) projects the number of Americans employed in the manufacturing sector to be 11.95 million – a number that has remained relatively static since March 2012.⁹

The revitalization and sustainability of this sector is key to closing the trade deficit and to a globally competitive U.S. economy, but there are varying projections for manufacturing. For policymakers, the most important questions are: what is the true state of the manufacturing sector, what factors are holding back a manufacturing recovery, and what policies could aid the sector's recovery.

III. Background

Historically, the manufacturing sector is the hardest hit during a recession but the quickest to recover due to pent-up demand for goods. In previous recessions, the U.S. economy regained lost manufacturing jobs in the 30 months following the end of the recession. Recent numbers from the BLS provide a glimmer of hope that this sector may indeed be rebounding,

² See *id.*

³ See Bureau of Labor Statistics, *Table B-1a. Employees on nonfarm payrolls by industry sector and selected industry detail, seasonally adjusted* (visited Feb. 12, 2013) <<http://www.bls.gov/web/empsit/ceseeb1a.htm>>.

⁴ See Bureau of Labor Statistics, *Table 5. Employees on nonfarm payrolls by state and selected industry sector, seasonally adjusted* (visited Feb. 12, 2013) <<http://data.bls.gov/cgi-bin/print.pl/news.release/laus.t05.htm>>. Manufacturing employs 6.7 million Americans in the 19 States represented by this panel (not counting the U.S. Virgin Islands).

⁵ See National Association of Manufacturers, *US Manufacturing Statistics – Manufacturing & Trade Data By State* (visited Feb. 12, 2013) <<http://www.nam.org/Statistics-And-Data/State-Manufacturing-Data/Manufacturing-by-State.aspx>>.

⁶ See National Institute of Standards and Technology, *U.S. Manufacturing In Context* (visited Feb. 12, 2013) <http://www.manufacturing.gov/mfg_in_context.html#_ftn1>.

⁷ See Information Technology & Innovation Foundation, *Worse Than the Great Depression: What the Experts Are Missing About American Manufacturing Decline* (Mar. 2012) <<http://www2.itif.org/2012-american-manufacturing-decline.pdf>>.

⁸ *Id.*

⁹ See Bureau of Labor Statistics, *Employment, Hours, and Earnings from the Current Employment Statistics survey (National)* (visited Feb. 11, 2013) <http://data.bls.gov/timeseries/CES3000000001?data_tool=XGtable>. In March 2012, the U.S. manufacturing sector employed 11,910,000 workers, a level of manufacturing jobs not seen since April 2009.

though not at historical rates; for three consecutive years, 2010 through 2012, the manufacturing sector added jobs, a stark contrast to the sector's consecutive yearly job losses since 1997.¹⁰

Overall, the United States lost 5.7 million manufacturing jobs during the 2000's, a rate of decline exceeding that during the Great Depression according to a study by the Information Technology & Innovation Foundation (ITIF).¹¹ The manufacturing sector lost 7.1 percent of its jobs in the 2001 recession and another 14.8 percent in the Great Recession. Unlike previous recessions, however, neither of these recessions was followed by a recovery of those lost jobs in the next 30 months. Instead, the sector experienced an additional 9.4 percent loss in the 30 months following the end of the 2001 recession while the manufacturing job loss of the Great Recession was offset with less than 1 percent growth in the same timeframe. From its low point in February 2010 to January 2013, the manufacturing sector recovered fewer than 500,000 jobs, leaving nearly 1.8 million of the nearly 2.3 million total manufacturing jobs lost during the Great Recession still missing from the sector.¹²

Creating an even starker picture of the state of the U.S. manufacturing, ITIF reported that over the two decades between 1980 and 1999, the manufacturing sector suffered an average 0.5 percent per year decline. That rate increased six-fold to a 3.1 percent per year decline for the 2000 to 2011 period, resulting in an average job loss of nearly 1,300 jobs per day (a number that jumps to 2,400 when taking into account the multiplier effect of manufacturing). A related report identifies the reason for decline in jobs: for each quarter over the last 13 years, the U.S. manufacturing sector shed an average of 3.5 percent of its factories while only seeing an average 2.9 percent in new plant openings.¹³

Factors Contributing to Manufacturing Decline

In 2012, the Harvard Business School conducted a survey of nearly 10,000 of its alumni regarding U.S. competitiveness. The study revealed a growing pessimism: a sense that there is a "deepening competitiveness problem" for the United States.¹⁴ At the heart of this view is a belief that the U.S. is falling behind in fostering an environment conducive to job creation.

In its 2012 report, *Facts About Modern Manufacturing (Facts)*, the National Association of Manufacturers Manufacturing Institute may have identified some of the reasons for the pessimistic view exposed in the Harvard study: U.S. manufacturers operate at a significant disadvantage in terms of structural cost burden. External policy-related costs such as a persistently high corporate tax rate; the high cost of health care and pensions; the rising cost of energy; regulatory costs such as abatement and environmental; and tort costs contribute to a 20

¹⁰ See *id.* See also Floyd Norris, *Manufacturing Is Surprising Bright Spot in U.S. Economy*, N.Y. Times, Jan. 5, 2012 <<http://www.nytimes.com/2012/01/06/business/us-manufacturing-is-a-bright-spot-for-the-economy.html>>.

¹¹ See Information Technology & Innovation Foundation, *supra* note 7.

¹² See Bureau of Labor Statistics, *supra* note 9.

¹³ See Timothy Aepfel, *No Evidence of U.S. Manufacturing Revival*, Wall St. J., Feb. 4, 2013 <<http://blogs.wsj.com/economics/2013/02/04/no-evidence-of-u-s-manufacturing-revival>>.

¹⁴ See Michael E. Porter and Jan W. Rivkin, Harvard Business School, *Prosperity at Risk, Findings of Harvard Business School's Survey on U.S. Competitiveness* (January 2012) <<http://www.hbs.edu/competitiveness/pdf/hbscompsurvey.pdf>>.

percent premium on manufacturing in the United States – leaving the U.S. second only to France in structural cost burden among our nine largest trading partners.¹⁵

The Manufacturing Institute also identifies non-policy-related challenges such as the lack of STEM-educated workers and a growing skills gap in the workforce in its *Facts* report. In partnership with Deloitte & Touche, the Manufacturing Institute released a study in 2011 specifically on these issues. The report, *Boiling Point? The skills gap in U.S. manufacturing*, cites 67 percent of surveyed corporate respondents reporting a “moderate to severe shortage” of qualified workers.¹⁶ Respondents also revealed nearly 600,000 open manufacturing positions remain unfulfilled for that reason, and that they expect the skills gap to widen further in the coming years due to public opinion among the rising generation of workers: manufacturing ranked last as an industry in which 18-24 year olds would choose a career. The report identifies as the most serious workforce deficiencies, in order of severity: inadequate problem-solving skills; lack of basic technical training; inadequate employability skills such as timeliness and work ethic; and inadequate technology, computer, math, reading, writing, and communication skills.

IV. Questions for Consideration

- What are the most important policy areas for Congress to address in order to remediate the external policy-related costs imposed on the manufacturing sector?
- What is industry’s plan to address the perceived skills gap? Is there a role for Congress in addressing the gap?

Please contact Brian McCullough, Gib Mullan, or Shannon Taylor of the Committee staff at (202) 225-2927 with questions.

¹⁵ See The Manufacturing Institute, *The Facts About Modern Manufacturing* (9th ed. 2012)

<<http://www.themanufacturinginstitute.org/Research/Facts-About-Manufacturing/~media/3EBE6A748B5B420E853B5216D4812847.ashx>>.

¹⁶ Deloitte and the Manufacturing Institute, *Boiling Point? The skills gap in U.S. manufacturing* (2011)

<http://www.themanufacturinginstitute.org/~media/A07730B2A798437D98501E798C2E13AA/2011_Skills_Gap_Report.pdf>.