The Manufacturing Council

April 13, 2011

The Honorable Gary Locke
U.S. Department of Commerce
Washington, D.C. 20230

Dear Mr. Secretary:

The members of the Manufacturing Council (Council) were heartened by the considerable attention President Obama paid to competitiveness in his January 2011 State of the Union address. If we are to make good on President Obama's pledge to "make America the best place on Earth to do business," and the premier location for manufacturing investment, from investors headquartered here or abroad, we must take immediate action to reclaim manufacturing as the foundation of the American economy and as a catalyst that generates American jobs across many industry sectors. Our goal should be to increase manufacturing as a percentage of America's gross domestic product, and the Council proposes the following recommendations as the first steps toward that goal.

We face a competitive crisis. While other countries have been transforming their business environments to accelerate growth, our government has added to our cost burden, erected new regulatory barriers, and done little to spur the innovation that has for so long been America's greatest advantage in the global economy. We continue to operate at a significant cost disadvantage compared to our foreign rivals. When combined with the effects of the massive recession we have just come through and the weak recovery we are experiencing today, many American manufacturers continue to struggle just to stay in business.

There is an enormous and growing set of threats to manufacturing competitiveness. These threats are well documented. They have been discussed in previous Manufacturing Councils' recommendations and in recent reports from the Council on Competitiveness, the National Association of Manufacturers and other industry groups. Many of the problems are not new. What has been missing is a shared strategy for decisive action. Now is the time for urgent attention from you, the entire Administration and the Congress if we are to prevent even more American manufacturers from closing their doors forever.

The members of the Manufacturing Council request your help to begin immediate work within the Administration on the recommendations that follow. While we do not specifically address the federal deficit in this letter, the Council acknowledges that we must act with full awareness of the need to bring spending in line with revenue in order to mitigate the long-term effects of the deficit on our ability to compete.

The list of threats we must overcome is long, but we would like to be responsive to your requests to help you prioritize issues for action. We believe the following three challenges must be taken on urgently if we are to begin to rebuild the competitive position of American manufacturing:

Institute comprehensive corporate tax reform. The corporate tax rate in the United States currently stands as the second highest among all major industrial nations and is a leading source of the significant cost disadvantage we face in global markets. The taxation system has become exceedingly complex, requiring too much time, effort and money to ensure compliance while taking advantage of legal tax relief. The haphazard system of temporary renewals and frequent tax code changes creates uncertainty that often discourages investment and job creation. Reform should not only help reduce costs for American business, but should also provide long-term clarity and stability in corporate tax policies.

We appreciate that the broad-based reform that we advocate is a complex and lengthy undertaking. While the Administration reviews components of comprehensive tax reform, all measures that would increase the competitiveness of U.S. manufacturers should be considered. This includes a value-added tax system like those in use by many of our trading partners which exacerbates the disadvantage we face. There are, however, specific immediate actions that will contribute to our ability to compete against lower-cost nations, encourage investment and spur job growth. We call on you and the President to work with Congress to:

- Reduce the corporate tax rate to the more globally competitive level of 25 percent, or lower, in the short term without adopting offsetting tax increases, but continuing to work in the long term toward a rate between 15 percent to 20 percent range to be more competitive with other countries' tax and VAT tax programs. Research demonstrates that reducing U.S. corporate income tax rates to the average of OECD countries (from the current 35 percent to 22 percent) would benefit the broader economy substantially, creating over 2 million jobs by 2019 and leading to an increase in real GDP of 2.2 percent (or $376 billion).[1] Due to the fact that many small and medium-size manufacturers are organized as S corporations and limited liability companies, we strongly recommend changes to the tax system that will proportionately benefit the competitiveness of these manufacturers, which comprise the majority of the manufacturing companies in the U.S.;

- Move the United States from a worldwide to a territorial tax system to reduce the double tax burden imposed by the United States to allow manufacturers to make greater investments in expansion, innovation and job creation; and

- Enhance and make the R&D tax credit permanent.

Enact regulatory reform. As President Obama has rightly recognized, the current regulatory environment presents significant challenges for manufacturers. We believe the executive order issued by the President on January 18, 2011, calling for a government-wide effort to review the costs, efficacy and burdens of all current and proposed regulations, is a promising start. At the same time, we are concerned that the appropriate mechanisms do not currently exist to ensure that the voice of the manufacturing sector is heard clearly in this process.

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[1] "Jobs for America: Investments and policies for economic growth and competitiveness," The Milken Institute, January 2010.

Congress has also demonstrated its intent to act on regulatory reform with recent hearings and the introduction of the "REINS" Act (H.R. 10, S. 299), and we call on the Administration to take the initiative to work together with Congress on this critical objective. Accordingly, we recommend that the Department of Commerce lead the charge in assessing the cost-competitiveness of government regulations, working with other agencies to achieve regulatory aims while avoiding debilitating effects on manufacturers and to identify a mechanism for oversight to occur. We further recommend that the Department of Commerce:

- Collaborate with manufacturers to create a process for evaluating proposed new regulations through a lens of global competitiveness before they are implemented;

- Develop a benchmarking process to analyze the impact of regulations from a broad global competitiveness perspective; and

- Proceed in its work with the guiding objective of diminishing the cost and complexity of regulatory compliance wherever possible.

In the document attached to this letter, we also have detailed several regulatory initiatives that pose serious threats to our competitiveness and require urgent action, including EPA regulation of greenhouse gases and programs being pursued by Department of Labor's Occupational Safety and Health Administration, NLRB and other agencies. While we have not proposed specific recommendations related to the new health care law, we are concerned that it holds the potential to add significantly to manufacturing costs, further eroding competitiveness. It is critical to pursue regulatory implementation of the new law that includes a focus on preventative care, proper use of health information technology, and alignment of incentives so that successful outcomes are rewarded. We are concerned about benefit mandates in the legislation that limit the flexibility of employers to provide tailored, cost-effective plans to employees.

Support innovation and R&D. American leadership in technology and innovation has long formed the foundation of our competitive advantage and economic strength. Federal government support has often played a critical role in spurring the private sector on toward some of our greatest technological achievements. In addition to the federal investment in energy technology President Obama has called for, we make the following recommendations:

- Increase the federal investment in basic and applied research in strategic areas and sectors, including full funding of the COMPETES Act and investments in emerging areas such as nanotechnology;

- Strengthen federal support for regional innovation clusters, both in terms of funding their growth and development and participating in collaborative research projects;

- Facilitate R&D collaboration between federal agencies and manufacturers;

- Expand opportunities available to small business through the Small Business Innovation Research grant program and the defense contracting process.

We have attached a comprehensive review of each of the three pillars of manufacturing competitiveness that identifies many of the opportunities we could create through implementation of reform -- as well as the implications of inaction. This review includes a more detailed look at the specific policy actions that we believe would most benefit manufacturing competitiveness today.

Tax reform, regulatory reform and expanded federal support for innovation are the critical components of a far more competitive policy structure for U.S. manufacturing, but alone they will not be enough to restore our standing in the world. Unless they are accompanied by numerous other policy reforms in key areas, we will continue to lose ground to our foreign competitors. These areas include:

- A **comprehensive energy policy.** To compete effectively, we need an energy policy that encourages investment in current energy infrastructures, pursues energy efficiency and conservation, and balances investment across a diverse portfolio of all fuel sources, renewable and non renewable. We support the work underway by the Council's energy subcommittee as they examine these issues.

- **Refocus trade policy** on reducing our trade deficit. The Council supports the President's National Export Initiative as a means to both by aggressively grow U.S. exports through the reduction of global barriers to our trade, and adopt a new trade-promotion and fast-track authority that simultaneously ensures U.S. rights under existing trade agreements and WTO rules are vigilantly protected and enforced both here and abroad. We must also pass the three pending Free Trade Agreements (South Korea, Colombia and Panama) this year.

- Federal funds for much-needed **infrastructure investments** that restore our ports, railroads, nuclear facilities, electric grid and IT infrastructure to world-leading quality, making greater use of public-private partnerships in the process.

- **Reform of the U.S. education system** to prepare and produce the globally competitive workforce required by the 21st century that will support American manufacturing for generations to come.

The President's State of the Union identified numerous issues that are important to Manufacturing Council members, but words will not be enough. Nothing short of sustained and unwavering commitment at the highest levels of government to turn those words into action will enable America's manufacturing sector to defend itself against the relentless onslaught we face from global competition.

Our Council will work with members of your staff at the Department of Commerce, along with representatives of other agencies, as appropriate, to develop key metrics and measures of success related to each of these recommendations. The competitiveness subcommittee will track our progress and provide regular updates to you and the full Council.

We appreciate your commitment to work with us to restore the competitiveness of U.S. manufacturing and look forward to achieving our goals together.

Sincerely,

Bruce Sohn
Chair