



The Committee on Energy and Commerce

Internal Memorandum

April 17, 2012

To: Members of the Subcommittee on Commerce, Manufacturing, and Trade
From: Majority Committee Staff
Re: Hearing on “Where the Jobs Are: Can American Manufacturing Thrive Again?”

On Thursday, April 19, 2012, the Subcommittee on Commerce, Manufacturing, and Trade will convene a hearing at 10:00 a.m. in room 2123 of the Rayburn House Office Building entitled “Where the Jobs Are: Can American Manufacturing Thrive Again?” Witnesses are by invitation only.

I. Witnesses

Panel I

The Honorable John Bryson, Secretary, U.S. Department of Commerce

Panel II

Robert D. Atkinson, Ph.D., President, Information Technology & Innovation Foundation

Alfonso T. Lubrano, President, Materion Technical Materials, Inc., and Vice Chairman, National Association of Manufacturers Small and Medium Manufacturers (SMM)

Craig A. Giffi, Vice Chairman and U.S. Leader, Consumer and Industrial Products, Deloitte & Touche USA LLP

Kenneth R. Tindall, Ph.D., Senior Vice President, Science and Business Development, North Carolina Biotechnology Center

II. Summary

The United States has been the world leader in manufacturing for decades with the world’s largest manufacturing economy producing 21 percent of global manufactured products.¹ According to a 2009 report by the National Association of Manufacturers (NAM), manufacturing supported nearly one in six jobs – jobs that, on average, pay over \$75,000 with benefits.² Further, manufacturing jobs have the highest multiplier in the economy: every \$1 in direct

¹ See National Association of Manufacturers, *Facts About Manufacturing* (visited Apr. 16, 2012) <<http://www.nam.org/Statistics-And-Data/Facts-About-Manufacturing/Landing.aspx>>.

² See *id.*

spending produces \$1.35 in addition indirect output. Conversely, each manufacturing job lost results in the loss of another 2.3 other jobs.³

The manufacturing sector was hit the hardest in terms of job losses during the Great Recession and has only seen a modest turn around. While manufacturing jobs account for just a tenth of the nation's jobs, the manufacturing sector suffered a third of the nation's job losses.⁴ For the first time in history, in 2009, the number of unemployed Americans exceeded the number of Americans employed in the manufacturing sector, a fact that remains true in 2012.⁵ As of March 2012, the Bureau of Labor Statistics (BLS) reports an uptick in the number of Americans employed in the manufacturing sector, numbering a projected 11.9 million workers – a level not seen since May 2009.

The revitalization and sustainability of this sector is key to closing the trade deficit and to a globally competitive U.S. economy. There are varying outlooks 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

A Positive Outlook for the Manufacturing Sector?

Historically, the manufacturing sector is the hardest hit during a recession but the quickest to recover due to pent-up demand for goods. Recent numbers from the BLS provide a glimmer of hope that this sector may indeed be rebounding: for the second consecutive year the manufacturing sector added jobs. Prior to 2010, the manufacturing sector had suffered consecutive yearly job losses since 1997.⁶

In addition to the improving employment numbers tracked by the Federal government, industry participants and observers have a more positive outlook. According to a report by the Boston Consulting Group, a combination of factors may indicate a positive environment for growth including rising wages in China, the rising cost of energy and real estate in China, and the rising cost of transporting goods back to the U.S. for consumption. The report concludes that

³ 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>>.

⁴ *Id.*

⁵ See *id.* See also Bureau of Labor Statistics, *Labor Force Statistics from the Current Population Survey. 1. Employment status of the civilian non-institutional population, 1941 to date* (visited Apr. 16, 2012) <<http://www.bls.gov/cps/cpsaat01.htm>>; Bureau of Labor Statistics, *Employment, Hours, and Earnings from the Current Employment Statistics survey (National)* (visited Apr. 16, 2012) <http://data.bls.gov/timeseries/CES3000000001?data_tool=XGtable>. In 2008, unemployed Americans totaled 8.9 million while the manufacturing sector employed 13.7 million Americans. In 2009, the number of unemployed rose to 14.3 million while the number of manufacturing employees fell to 12.6 million. As of March 2012, those numbers changed to 12.7 million and 11.9 million, respectively.

⁶ See Bureau of Labor Statistics, *Employment, Hours, and Earnings from the Current Employment Statistics survey (National)*, *supra* note 5. See also Floyd Norris, *Manufacturing Is Surprising Bright Spot in U.S. Economy*, N.Y. Times, Jan. 5, 2012 (visited Apr. 16, 2012) <<http://www.nytimes.com/2012/01/06/business/us-manufacturing-is-a-bright-spot-for-the-economy.html>>.

within 5 years the cost advantage of production in China's coastal cities will only best manufacturing in some parts of the U.S. by 10 to 15 percent.⁷

Or Cause for Concern?

Other observers see cause for concern buried within the recovery numbers. Overall, the United States lost 5.7 million manufacturing jobs during the 2000s, a rate of decline that exceeded the Great Depression according to a study by the Information Technology & Innovation Foundation (ITIF).⁸ While some forecasters see reason for promise in the manufacturing job gains of the last two years, ITIF contends the increase is not yet reason to celebrate. In previous recessions, the U.S. economy regained lost manufacturing jobs in the 30 months following the end of the recession. Compounding the current crisis is the pattern of manufacturing jobs loss in the last decade. The manufacturing section lost 7.1 percent of its jobs in the 2001 recession, followed by another 9.4 percent in the 30 months following the end of that recession. The Great Recession led to another 14.8 percent manufacturing job loss, offset with less than 1 percent growth during the 30 months following the end of the last recession. Through February of 2012, the manufacturing sector grew less than 1.5 percent, leaving 1.8 million of the 2 million jobs lost still missing from the manufacturing sector.

The rate of decline posited by ITIF is also revealing. Over the two decades between 1980 and 1999, the manufacturing sector suffered a 0.5 percent per year decline on average. That rate increased six-fold to 3.1 percent for the 2000 to 2011 period, for an average of nearly 1,300 jobs per day lost since 2000. Furthermore, because the multiplier is so high for manufacturing jobs, this rapid decline was compounded by the loss of an additional related 2,400 jobs per day. The U.S. economy lost a staggering 66,000 manufacturing firms – an average of 17 per day – over this period. At the current rate of recovery, ITIF estimates the manufacturing sector would not return to 2007 job levels until at least 2020.

Factors Contributing to Manufacturing Decline

A number of observers blame the job loss trend on increased productivity. The ITIF report contends the official estimate of labor productivity growth is overstated by 122 percent while output growth in the U.S. manufacturing sector is also “significantly overstated”; output growth actually fell 11 percent when GDP rose 17 percent over the same period. Rather than more productive workers, the decline in manufacturing jobs is due to lost output fueled by falling demand, either because of the recession or as a result of increased import consumption.

Observers with this more pessimistic view of the state of American manufacturing cite a number of factors contributing to both the decline in manufacturing jobs in recent years as well as to the slow rate of recovery. In its 2009 report, *Facts About Modern Manufacturing (Facts)*, the National Association of Manufacturers Manufacturing Institute identifies external policy-related costs such as a persistently high corporate tax rate, the high cost of health care, the rising cost of energy, regulatory costs such as abatement and environmental, and tort costs.⁹ Similarly,

⁷ See Boston Consulting Group, *Made in America, Again* (2011) <<http://www.bcg.com/documents/file84471.pdf>>.

⁸ See Information Technology & Innovation Foundation, *supra* note 3.

⁹ See The Manufacturing Institute, *The Facts About Modern Manufacturing* (8th ed. 2009) <<http://www.themanufacturinginstitute.org/~media/D45D1F9EE65C45B7BD17A8DB15AC00EC.ashx>>.

a survey conducted by the Harvard Business School involving nearly 10,000 of its alumni revealed a more pessimistic view: a sense that there is a “deepening competitiveness problem” for the U.S.¹⁰ At the heart of this view is a sense that the U.S. is falling behind in fostering an environment conducive to job creation.

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 that drills deeper into 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.¹¹ 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

- Are the government statistics on the state of the manufacturing sector overstated?
- 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 Weinberg of the Committee staff at (202) 225-2927 with questions.

¹⁰ 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>>.

¹¹ 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>.