

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-6315

To: Members, Committee on Small Business
From: Committee Staff
Date: June 17, 2013
Re: Hearing: "Made in the USA: Stories of American Manufacturers"

On Wednesday, June 19, 2013 at 1:00 pm in Room 2360 of the Rayburn House Office Building, the Committee on Small Business will meet for the purposes of highlighting the reemergence of and successes of small American manufacturers. Since 1963, the United States Small Business Administration (SBA) has held a National Small Business Week (NSBW), recognizing the achievements and contributions of our nation's small business owners. This year, NSBW is to be held June 17-21. This hearing, in line with the mission of NSBW, will highlight the stories and successes of American job creators.

1. Introduction

Despite a decline, manufacturing still makes up a significant portion of the economy. According to the Bureau of Labor Statistics, almost 11 million Americans, nearly 9 percent of the total workforce, are employed directly in manufacturing.¹

The average manufacturing business employs less than 50 people,² and according to the latest data from the United States Census Bureau, there are approximately 259,000 manufacturing firms in the United States. Of these, just 3,500 have 500 or more employees.³ In contrast to the view held by many, most manufacturers are small businesses. The sector drives American innovation, representing at least two-thirds of all private sector R & D spending, and accounting for over 90 percent of patents issued.⁴ In addition to these aforementioned benefits,

¹ <http://www.bls.gov/web/empsit/ceseeb1a.htm>.

² http://www.bls.gov/opub/ted/2012/ted_20120426.htm.

³ http://www2.census.gov/econ/susb/data/2010/us_6digitnaics_2010.xls.

⁴ Gene Sperling, Director, President's National Economic Council, Speech Before The Conference On The Renaissance Of Manufacturing 2 (Mar. 27, 2012) (noting manufacturing represents 70 percent of all R&D spending), available at http://www.whitehouse.gov/sites/default/files/administration-official/sperling_-_renaissance_of_american_manufacturing_-_03_27_12.pdf; see also Rana Foroohar, Bill Saporito, *Is the U.S. Manufacturing Renaissance Real?*, TIME, Mar. 28, 2013 (noting manufacturing represents 67 percent of all R&D spending), available at <http://business.time.com/2013/03/28/is-the-u-s-manufacturing-renaissance-real/>.

manufacturing provides a multiplier effect on the economy. For every \$1 of manufacturing output in a community, there is at least another \$1.40 of wealth created.⁵

II. Decline of an Industry

From 1979 to 2010, the number of those employed in the manufacturing industry steadily declined, totaling over 7 million lost jobs.⁶ Some analysts claim a myriad of economic conditions and market forces led to the downward trend of the industry.⁷ Others cite policy actions that acted as a catalyst for the decline of manufacturing jobs. A recent working paper points to a specific shift in the United States' trade policy towards China in late 2000 as a cause for the particularly sharp drop⁸ in manufacturing employment after 2001.⁹

This decline of the manufacturing industry was exacerbated by the recent recession. Between December 2007 and June 2009, the industry experienced a severe decrease in jobs, losing more than 2 million employees, or 15 percent of its workforce.¹⁰ The durable goods sector, accounting for 63 percent of all manufacturing jobs at the start of the recession, was responsible for 75 percent of factory job losses during this two-year period.¹¹ Among the sector, the transportation equipment industry lost the largest number of jobs, accounting for 23 percent of all durable goods employment losses.¹² This was largely due to the 35 percent decline in motor vehicle and motor vehicle parts manufacturing due to the decrease in demand for motor vehicles during the period.¹³

⁵ Gene Sperling, Director, President's National Economic Council, Speech Before The Conference On The Renaissance Of Manufacturing at 6. Other estimates are slightly higher. See Rana Foroohar, Bill Saporito, *Is the U.S. Manufacturing Renaissance Real?*, TIME, Mar. 28, 2013 available at <http://business.time.com/2013/03/28/is-the-u-s-manufacturing-renaissance-real/>.

⁶ BUREAU OF LABOR AND STATISTICS, MONTHLY LABOR REVIEW, MANUFACTURING EMPLOYMENT HIT HARD DURING THE 2007-2009 RECESSION 29 (Apr. 2011), available at <http://www.bls.gov/opub/mlr/2011/04/art5full.pdf>. [hereinafter BLS, Monthly Labor Review]

⁷ Richard McCormack, *The Plight of American Manufacturing*, AMERICAN PROSPECT, Dec. 21, 2009, available at <http://prospect.org/article/plight-american-manufacturing>. In attempting to explain reasons for the decline in the United States' manufacturing industry, McCormack alludes to numerous factors, noting "American companies have difficulty competing against foreign countries that undervalue their currencies, pay health care for their workers; provide subsidies for energy, land, buildings, and equipment; grant tax holidays and rebates and provide zero-interest financing; pay their workers poverty wages that would be illegal in the United States, and don't enforce safety or environmental regulations." *Id.*

⁸ JUSTIN R. PIERCE & PETER K. SCHOTT, THE SURPRISINGLY SWIFT DECLINE OF U.S. MANUFACTURING EMPLOYMENT 2 (2012), available at http://faculty.som.yale.edu/peterschott/files/research/papers/manuf_229.pdf. Pierce and Schott note that more than half of the 19.6 million manufacturing jobs lost between 1979 and 2007 occurred in the years following the "relatively mild 2001 recession." *Id.*

⁹ *Id.* The United States granting "permanent normal trade relation" status to China in October 2000 led to increased certainty for Chinese manufacturers regarding the level of tariffs. In their working paper, Pierce and Schott find that the greatest manufacturing job losses in the United States occurred in industries where previously (before the granting of "permanent normal trade relation" status), Chinese manufacturers were required to be annually re-approved, potentially leading to increases in tariffs.

¹⁰ BLS, MONTHLY LABOR REVIEW, *supra* note 6, at 28.

¹¹ *Id.* at 30.

¹² *Id.*

¹³ *Id.*

III. Grounds for Reemergence

After consecutive decades of American manufacturing job losses, a gradual shift is taking place, making the United States a more attractive place for production. Notably, overseas manufacturing costs are gradually rising, led in part by climbing Chinese wages. The effective manufacturing wage gap between the United States and China was \$17 per hour in 2006 and is expected to shrink to \$7 per hour by 2015.¹⁴ Some economists predict the cost to manufacture in China could double by 2020.¹⁵

In addition to the effects of changes in the labor market, more small manufacturers take into account the effect of hidden overseas production costs. With many products, “when hidden costs such as transportation, duties, supply chain risks, and industrial real estate are fully accounted for, the cost savings of manufacturing in China rather than in some American States will become minimal within the next five years.”¹⁶ One small manufacturer noted that “when working with a manufacturer overseas, a brand will have to make a purchase decision about 18 months in advance....Not only does manufacturing locally cut down the buy cycle to about four to six weeks, but it allows the opportunity to restock on products that are selling exceptionally well, and avoid any inventory shortages.”¹⁷

Beyond efficiencies in the supply chain, manufacturers are concerned about the quality of, and demand for their product. Recent findings show that both American and Chinese consumers are willing to pay more for products labeled “Made in USA” rather than “Made in China.”¹⁸

Thus, the groundwork for a resurgence in American manufacturing has been established. China no longer has significant cost advantages in the supply chain, and consumers trust the “Made in America” label.

IV. Stemming the Tide

The gradual, decades-long decline of manufacturing was brought to a halt in April 2010, when the United States began adding, instead of losing, manufacturing jobs.¹⁹ Since January 2010, the United States has added 530,000 manufacturing jobs.²⁰ While it might not warrant being labeled a “manufacturing comeback” or “renaissance” given the previous number of job

¹⁴ EULER HERMES ECONOMIC RESEARCH DEPARTMENT, *THE REINDUSTRIALIZATION OF THE UNITED STATES* 17 (2013), available at <http://www.eulerhermes.us/reindustrialization.pdf>.

¹⁵ *The End of Cheap China, What do Soaring Chinese Wages Mean for Global Manufacturing*, THE ECONOMIST, Mar. 10, 2012 at 75-76.

¹⁶ THE BOSTON CONSULTING GROUP, *MADE IN AMERICA, AGAIN, WHY MANUFACTURING WILL RETURN TO THE U.S.* 3 (2011), available at <http://www.bcg.com/documents/file84471.pdf>.

¹⁷ Eric Markowitz, *Exposing the Myths About American Manufacturing*, INC., Feb. 1, 2012, available at <http://www.inc.com/eric-markowitz/exposing-the-great-myths-about-american-manufacturing.html>.

¹⁸ THE BOSTON CONSULTING GROUP, *MADE IN AMERICA, AGAIN, UNDERSTANDING THE VALUE OF ‘MADE IN THE USA’* 1 (Nov. 2012) (on file with the Committee).

¹⁹ <http://data.bls.gov/timeseries/CES3000000001> (last visited May 15, 2013).

²⁰ *Id.*

losses, the addition, rather than displacement, of American manufacturing jobs for the last three consecutive years is certainly noteworthy.

The changing economic landscape is also igniting the repatriation of manufacturing. An estimated 50,000 of the added American manufacturing jobs were due to “reshoring,” jobs derived from an overseas company moving to the United States.²¹ An April 2012 poll of 259 American contract manufacturers, which make goods for other companies, showed 40 percent of respondents benefited that year from work previously done abroad.²² Of those surveyed, 17 percent of manufacturers had returned production from a low-cost country to the United States in the previous three months, and 31 percent planned to return at least a portion of its production to the United States within the next three months.²³

Following the trend of recent industry growth, economic activity of American manufacturers has steadily risen. Labor productivity in the manufacturing sector increased by 3.5 percent in the first quarter of 2013 as a result of higher output, which rose 5.3 percent.²⁴ These were the highest increases since the first quarter of 2012. The PayNet index of small manufacturers, which measures levels of investment and other capital expenditures, is up 48 percent since 2009.²⁵

V. Outlook for the Future

As today’s small American manufacturers adapt and are growing, they take on a drastically different image than that of “traditional” manufacturer, and increasingly harness innovation. A recent report from the Massachusetts Institute of Technology (MIT) found that their core contribution to innovation is not patents, but the repurposing of technology developed in one sector for a completely different use.²⁶ For others, it is the supplying of vital products and services to other companies that enables growth of the supplied and supplier.²⁷ Manufacturing can no longer be viewed as a static, centralized industry; it is instead a consortium of flexible, adaptive innovators carrying many different purposes.

Recent technological development is creating new opportunities for small manufacturers in the form of accessibility to previously unavailable methods of production. For example, recent research by information technology research and advisory firm Gartner, Inc. reveals that

²¹ <http://reshorennow.org/news/pressrelease.cfm?pid=3>.

²² <http://www.mfg.com/mfgwatch/mfgwatch-q1-2012>.

²³ *Id.*

²⁴ <http://www.bls.gov/news.release/pdf/prod2.pdf>.

²⁵ James B. Kelleher, *Small U.S. Manufacturers Investing at Pre-Recession Levels: Report*, REUTERS, May 1, 2013, available at <http://www.reuters.com/article/2013/05/01/us-usa-manufacturing-investment-idUSBRE9400WO20130501>.

²⁶ MASSACHUSETTS INSTITUTE OF TECHNOLOGY, A PREVIEW OF THE MIT PRODUCTION IN THE INNOVATION ECONOMY REPORT 19 (2013), available at <http://web.mit.edu/press/images/documents/pie-report.pdf>.

²⁷ *Id.*

by 2016, enterprise-class 3-D printers will be available for under \$2,000.²⁸ This could lead to a widespread use of these devices, potentially fundamentally changing the manufacturing industry.

Government officials and policymakers are aware of the industry-changing potential of 3-D printing and are taking steps to facilitate widespread use of the technology in the United States. As part of the creation of the National Network for Manufacturing Innovation in March 2012, the National Center for Defense Manufacturing and Machining has launched and is managing the Network's pilot institute, the National Additive Manufacturing Innovation Institute (NAMII).²⁹ Based in Youngstown, Ohio, NAMII is a public-private partnership with the goal of bringing 3-D printing to the mainstream United States manufacturing sector while fostering an adaptive workforce prepared to use the new technology in a way that will increase domestic manufacturing competitiveness.³⁰

Moving forward, in addition to the challenges of accessing capital and complying with new regulations, small manufacturers will have to cope with a shortage of skilled workers in America. The most recent report from the Manufacturing Institute claims that as many as 600,000 manufacturing jobs are unfilled due to a lack of qualified applicants.³¹ Despite this disparity, small manufactures are optimistic about their future in the United States. Sixty-eight percent of firms expect revenues to increase in 2013, while 87 percent expect capital expenditures to grow or remain constant this year compared to 2012 levels. Additionally, 43 percent of respondents plan to hire additional employees in 2013, while 52 percent plan to maintain current personnel levels.³²

VI. Conclusion

Small manufacturers make up a large percentage of all domestic manufacturing firms. After experiencing a downward trend in manufacturing jobs for the past 30 years, an increasing number are returning parts or all of their production operations to the United States. Today, these firms are utilizing new, innovative, and unconventional production methods to gain an edge. Maintaining a strong domestic manufacturing presence coupled with consumers buying domestically produced products is critical to ensuring we keep and create jobs here at home. Given this, Congress must take note of this growing, evolving and vital industry.

²⁸ GARTNER INC., HOW 3-D PRINTING DISRUPTS BUSINESS AND CREATES NEW OPPORTUNITIES 2 (2013) (on file with the Committee).

²⁹ <http://namii.org/about/background/>.

³⁰ *Id.*

³¹ THE MANUFACTURING INSTITUTE, BOILING POINT? THE SKILLS GAP IN MANUFACTURING 8 (2011), available at <http://www.themanufacturinginstitute.org/~media/A07730B2A798437D98501E798C2E13AA.ashx>.

³² PRIME ADVANTAGE, IH GROUP OUTLOOK SURVEY 2013 5 (2013) (on file with the Committee).