

## Why Manufacturing Matters and What Should Be Done to Stimulate the Industry

by Michael E. Smeltzer

The backbone of any prospering economy is the ability of the citizenry to generate and earn wealth!!! While some may argue that economies can prosper even when the wealth is not shared with the people of the economy, history shows that those incidents are not sustainable. While most politicians claim to understand the importance of manufacturing to the United States economy, few undertake any action to develop a “Manufacturing Policy” that provides consistent, proactive policy/legislation that enables manufacturing executives the opportunity to develop long-term strategic plans to provide dependable returns on investment for shareholders and employees.

### **United States Manufacturing Facts** (Source: National Association of Manufacturers)

- The United States is the world’s largest manufacturing economy, producing 21 percent of global manufactured products. China is second at 15 percent and Japan is third at 12 percent.
- U.S. manufacturing produces \$1.6 trillion of value each year, or 11.2 percent of U.S. GDP.
- Manufacturing supports an estimated 18.6 million jobs in the U.S.—about one in six private sector jobs. Nearly 12 million Americans (or 9 percent of the workforce) are employed directly in manufacturing.
- In 2009, the average U.S. manufacturing worker earned \$74,447 annually, including pay and benefits. The average non-manufacturing worker earned \$63,122 annually.
- U.S. manufacturers are the most productive workers in the world—twice as productive as workers in the next 10 leading manufacturing economies.
- U.S. manufacturers perform two-thirds of all R&D in the nation, driving more innovation than any other sector.
- Taken alone, U.S. manufacturing would be the 9th largest economy in the world

### **Pennsylvania Manufacturing Facts**

- In April 2011 there were more than 571,000 manufacturing employees in Pennsylvania.
- The average annual compensation of a manufacturing employee was \$65,819 compared to \$55,434 for the rest of the workforce. (2008 data)
- There are more than 15,000 manufacturing establishments in Pennsylvania. (2007 data)
- Manufacturing output in 2009 was \$68.5 billion or 12.5% of the Pennsylvania economy.
- Manufacturers contributed 92% of the share of Pennsylvania’s exports.

Manufacturing has established itself as the economic engine that has driven the American economy for more than 100 years and is essential for maintaining a strong middle-class and a strong national defense. Historically, manufacturing has been a crucial source of good, family

sustaining wage jobs for the large majority of American workers without a college education. America's national defense is based on the strength of its industrial base but the emergence of globalized production networks in key manufacturing industries, along with the loss of critical domestic production, has made the American industrial base more vulnerable to disruptions from international crises and international terrorism.

The loss of manufacturing technology and technical capacity undermines innovation as an engine for growth. Job losses in manufacturing mean that the sector's technical capacity is being threatened. The loss of research, design, engineering, and development capacity, in addition to skilled production workers, means that future innovations are more likely to be made in the economy of another country.

The manufacturing trade deficit has grown dramatically at the cost of U. S. jobs. The deepening trade deficits of the past two decades have contributed to the decline in manufacturing jobs and wages. The U. S. trade deficit of \$95 billion in goods and services in 1995 hit a staggering \$756 billion in 2006, with China accounting for an ever increasing portion of that growth.

## **Recommendations**

- ✓ Create a tax climate that does not place manufacturers at a competitive disadvantage in the global marketplace.

### Washington

Reduce the corporate tax rate to 25% equaling the average of the major industrial countries in the Organization for Economic Cooperation and Development (OECD).

Institute permanent lower tax rates for individuals and small businesses.

### Pennsylvania

Eliminate the Capital Stock and Franchise tax.

Reduce the Corporate Net Income Tax rate from 9.99% to 6.99%.

Eliminate the cap on Net Operating Loss deductions.

- ✓ Reform United States trade policies.

### Washington

Approve NO NEW trade agreements and aggressively enforce the provisions of existing trade agreements.

Pass legislation targeting illegal currency manipulation by China and other countries.

Demand United States trading partners treat American made goods fairly; not burdened by import tariffs.

#### Pennsylvania

Provide services to manufacturing companies that are being negatively impacted by foreign manufacturers.

Encourage the U. S. Congress to address trade and currency issues.

- ✓ Modify labor policies to increase employer flexibility.

#### Washington

Oppose all aspects of the Employee Free Choice Act.

Prevent National Labor Relations Board rulemaking that overturns the long established balance in management-labor relations.

Recognize and promote the voluntary efforts of employers to meet the needs of individual employees through flexible work schedules and benefit arrangements.

#### Pennsylvania

Modify unemployment policies/practices that discourage participants from pursuing employment opportunities.

Reform workers compensation policies to develop fair and equitable standards for employers and employees.

- ✓ Implement a common sense, fair approach to legal reform.

#### Washington

Restore fairness in our legal system providing clear standards for liability and justice for all parties, including specific statutes of limitations and sanctions on frivolous claims and limits on punitive damages.

Oppose special interest legislation that incentivizes and subsidizes litigation against manufacturers, such as tax deduction for contingency lawsuits.

#### Pennsylvania

Repeal of Joint and Several Liability. Pennsylvania's allowance of recovery under the theory of joint and several liability holds every defendant found even one percent liable in a lawsuit responsible for the entire verdict.

Statute of Repose in Product Liability Actions – Too many product liability suits are brought many years after a product was manufactured and worked without incident. This leads to unfairness, difficulties in defense and higher insurance costs. The legislation would establish a 15-year time limit (statute of repose) for most products.

Caps on Non-Economic Damages – Damages for non-economic losses (i.e., pain and suffering, emotional distress, loss of consortium or companionship, and other intangible injuries) involve no direct economic loss and have no precise value. Legislation should be passed establishing a cap on non-economic damage awards.

- ✓ Additional Legislation Action required.

#### Washington

Enact tax provisions that will stimulate research and development investments.

Create a comprehensive energy strategy that:

Encourages production of electricity including traditional (coal, hydropower, and natural gas), nuclear, and renewable and alternative fuels.

Reduce dependence on foreign energy by increasing domestic supply: Expand production of oil and natural gas by lifting the moratorium on Outer Continental Shelf development, and encourage development of shale gas.

Encourage innovation through education reform, improvement, and accountability.

Invest in science, technology, engineering, and math (STEM) education.

Promote a system of nationally portable, industry-recognized skills credentials.

Support health care reform by containing the cost of health care by building upon the existing employer-sponsored health care system without jeopardizing or mandating plan design.

## Pennsylvania

Aggressively pursue improvements to address the waste and abuse of public welfare programs.

Develop a strategy that will allow development of Marcellus Shale opportunities without jeopardizing the environment and is fair to Pennsylvania taxpayers.

Demand education reform that will improve student performance and gaining cost control.

Implement performance based funding to school districts.

Encourage functional consolidation of neighboring school districts to eliminate redundant services and reduce overhead costs.

Create a regulatory environment that promotes economic growth.

Enact legislation that allows the Pennsylvania Department of Community and Economic Development to intercede when local governments obstruct quality economic activity.

The economies of the United States and states like Pennsylvania are being challenged as the balance between makers and takers shifts. Takers are the entitlement programs that now overwhelm budgets at all levels of government. Makers are those individuals and businesses that are determined to generate wealth for their families and shareholders and create opportunities for future generations. Elected representatives must shoulder the responsibility to become proactive and vigilant in the development, enactment, and maintenance of policies that promote economic growth and control of spending. Individuals must become more involved and educated to support policy reform to protect the interests of future generations.

Without significant reform, the quality of life and economic opportunities for future generations will be jeopardized!

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