



American Enterprise Institute for Public Policy Research

**Statement before the Committee on Science, Space, and Technology
Subcommittee on Research and Technology**

Comments on H.R. 2996 - Revitalize American Manufacturing and Innovation Act of 2013

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The views expressed in this testimony are those of the author alone and do not necessarily represent those of the American Enterprise Institute.

Mr. Chairman, Mr. Ranking Member, Members of the Committee, I would like to thank you for the opportunity to testify today before the Committee.

I am here to discuss the need for a “manufacturing innovation network,” as proposed in H.R. 2996, the “Revitalize American Manufacturing and Innovation Act of 2013.”

H.R. 2996 proposes to appropriate \$600 million to establishing a Network for Manufacturing Innovation Program consisting of centers for manufacturing innovation. These centers are meant to “address challenges in advanced manufacturing” to retain or expand “industrial production and jobs in the United States.” They must do so in areas determined by the Secretary of Commerce to be of importance in attaining these goals, and they must feature representatives from multiple “entities” from a broad range of categories. The Secretary of Commerce’s decision as to which centers are worthy of federal funding will be based, besides these overall goals, on criteria including the involvement of small- and medium-size manufacturing firms, as well as “how the center for manufacturing innovation will strengthen and leverage the assets of a region.”

I will discuss what the justifications are for this focus on manufacturing, as opposed to other sectors in the economy; how this increase in discretionary spending fits into the broader fiscal outlook; and how these centers for manufacturing innovation meet the needs of manufacturing firms in the United States.

According to the Bureau of Labor Statistics, the manufacturing sector employs some 12 million workers in the U.S., down, from almost 20 million in the late 1970s. That is 500,000 more than at the end of 2009, but still about 2 million fewer than before the start of the Great Recession (see Figure 1).

These figures certainly do not suggest a renaissance of U.S. manufacturing, but a look at manufacturers’ sales figures provides more of an underpinning for such a view of U.S. manufacturing. According to the Census Bureau, manufacturers’ sales are, indeed, back where they were at their previous peak. After falling by about 25% during the 2007-2009 recession, they had rebounded by July of this year (see Figure 2). What this suggests, of course, is that most of the recent resurgence of manufacturing in the United States has been highly capital intensive. That is, output is increasing without much hiring. This has been true for decades, is mostly a product of technological progress, and does not appear to be a trend that is about to reverse.

It is also not a phenomenon that is unique to the United States. Even Germany, that paragon of manufacturing prowess in the industrialized West, touted for its positive trade balance in advanced manufacturing products in Section II of the bill, has seen manufacturing employment as a share of total employment plummet over the past forty years (see Figure 3).

These broad, long-term developments, driven by technological change more than domestic public policy, are important to consider when analyzing the state of manufacturing today. It seems unlikely that manufacturing will regain its old central role in our modern economy, while striving to reverse the trends highlighted before is likely to be costly yet ultimately fruitless. Having the Secretary of Commerce micromanage investments in production technologies only makes this more likely.

New spending initiatives like this look even less attractive if we also consider the state of the federal government's finances. Over the past 40 years, mandatory spending, particularly on entitlement programs such as Social Security and Medicare, has escalated rapidly (see Figure 4). Less than 20% of the federal budget now goes toward programs other than Social Security, Medicare, Medicaid, CHIP, other safety net programs, Defense, and interest payments. And almost half of that pays for benefits for federal retirees and veterans. This development puts immense pressure on discretionary-spending programs, some of which are quite crucial to the nation's future. Instead of allocating funds to new manufacturing innovation initiatives, I would prefer that current spending on scientific and medical research be maintained, and that some of the more unfortunate sequestration cuts in that area be reversed. More importantly, to preserve such important programs, Congress needs to commit to serious entitlement reform, in order to keep entitlement spending from further crowding out all other spending.

At the same time, setting the stage for enduring American competitiveness is certainly a possibility. By removing uncertainty about the country's fiscal policies, by providing tax and regulatory relief to both manufacturing and non-manufacturing firms, by training workers to be able to function in today's globalized economy, and by benefitting from the domestic oil and gas industry's newfound health, the U.S. can continue to be home to extraordinarily successful, innovative firms in manufacturing and elsewhere.

On the taxation side, the United States has the highest statutory corporate tax rate in the developed world. Many governments around the world have taken steps over the past few decades to lower their corporate tax rates, and for good reason. Excessively high corporate tax rates serve to make investments less attractive, raise the prices of goods, and lower wages; a wide range of effective rates arbitrarily favors some firms over others. Steps to reduce this burden on U.S. firms and the U.S. subsidiaries of foreign firms would be welcome.

There are also real gains to be made on the education side. Over the past 30 years, the added value of human capital has increased drastically. College graduates have seen their hourly earnings increase by some 20%, while high school graduates have seen their earnings decrease (see Figure 5).

The labor market dynamics have been more subtle than those figures imply, though. Especially more recently, it is mid-skilled occupations that have become less common and less well-rewarded, not low-skilled occupations (see Figure 6). This polarization of the labor market is to a large extent driven by automation and information technology, but also of a post-secondary education system that does not provide graduates with the skills required to be successful in today's labor market. This is a problem that is not unique to the U.S., but certainly one that appears to be larger here than in a country like Germany (see Figure 7).

In sum, I believe that there is a variety of ways in which to address or at least alleviate some of the problems often attributed to the decline of manufacturing in the United States. None of these are cure-alls, but some of them, though possibly politically difficult, are more genuinely beneficial than others, including corporate tax reform and entitlement reform.

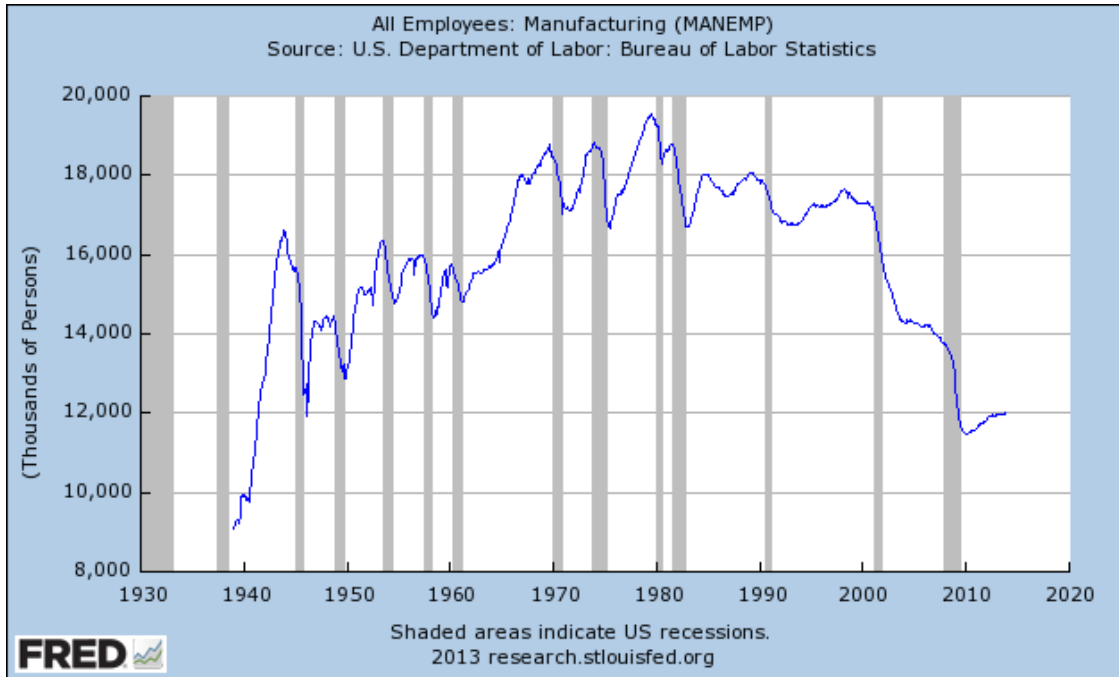


Figure 1: Employment in Manufacturing (source: FRED)

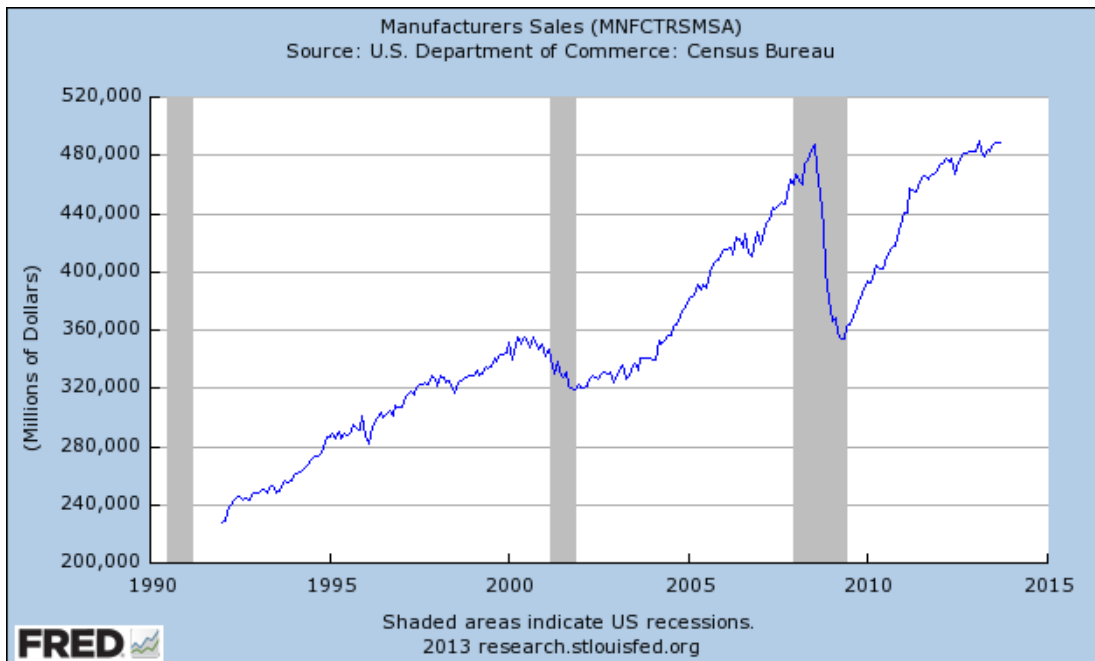


Figure 2: Manufacturing Sales (source: FRED)

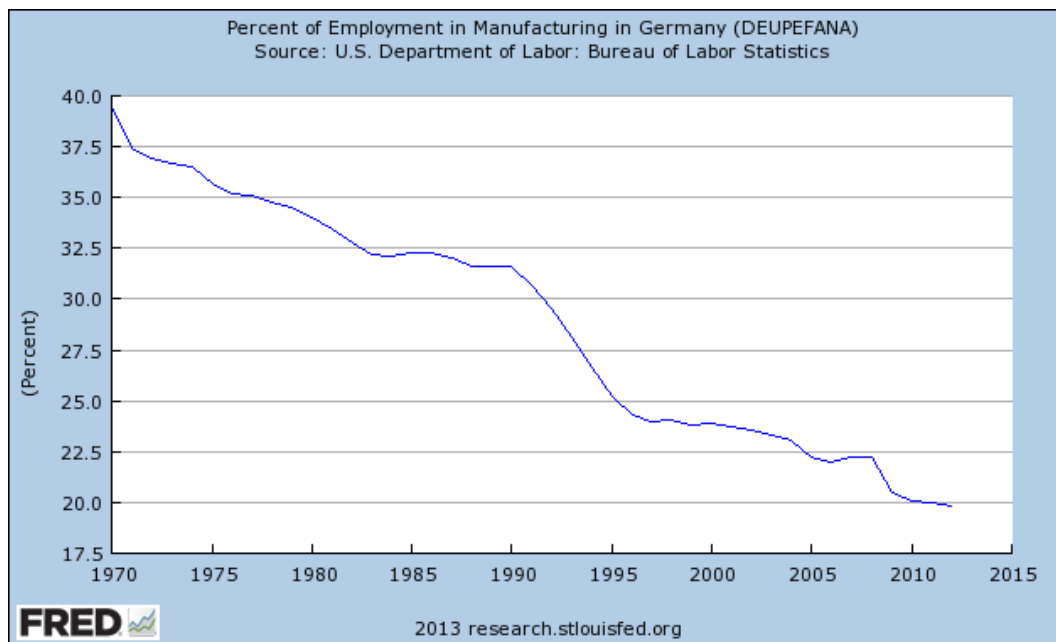
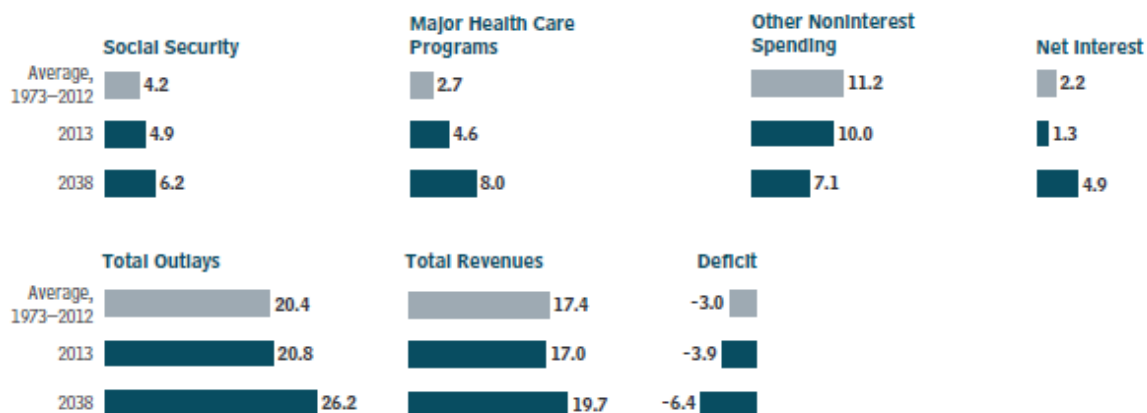


Figure 3: Manufacturing Employment as a Share of Total Employment in Germany (source: FRED)

Figure 1-3.

Spending and Revenues Under CBO's Extended Baseline, Compared With Past Averages

(Percentage of gross domestic product)



Source: Congressional Budget Office.

Notes: The extended baseline generally adheres closely to current law, following CBO's 10-year baseline budget projections through 2023 and then extending the baseline concept for the rest of the long-term projection period.

These numbers reflect recent revisions by the Bureau of Economic Analysis to estimates of gross domestic product (GDP) in past years and CBO's extrapolation of those revisions to projected future GDP.

Major health care programs consist of Medicare, Medicaid, the Children's Health Insurance Program, and subsidies offered through new health insurance exchanges. (Medicare spending is net of offsetting receipts.) Other noninterest spending is all federal spending other than that for major health care programs, Social Security, and net interest.

Figure 4: Spending and Revenues by Category (source: Congressional Budget Office)

Percent changes in real hourly earnings by education, 1979–2007

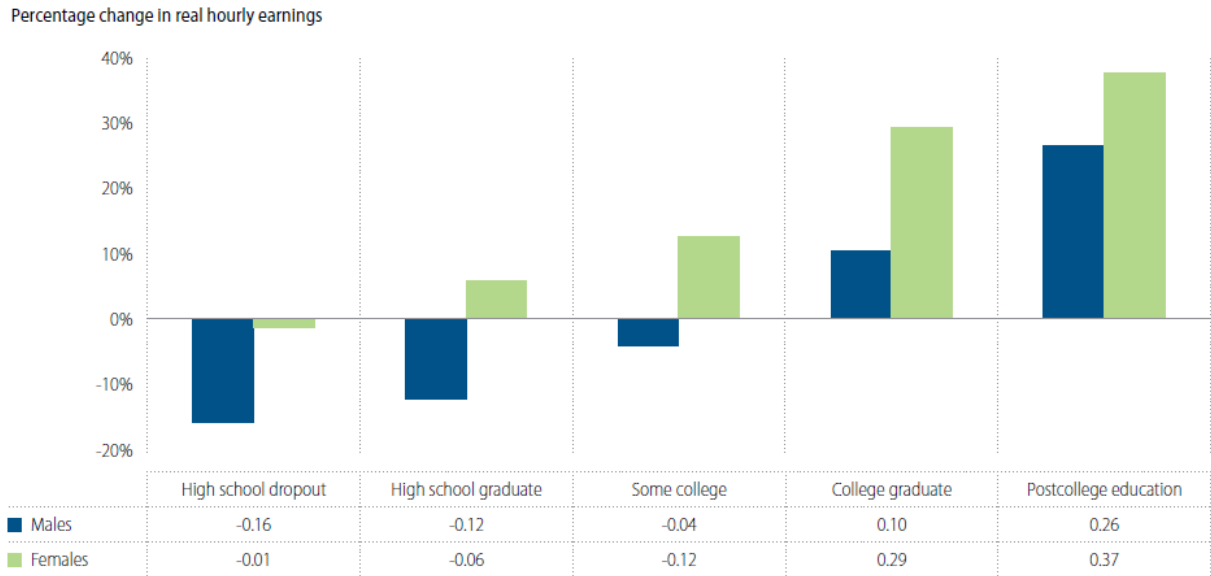


Figure 5: Real Hourly Earnings by Education Level (source: The Hamilton Project at the Brookings Institution)

Smoothed changes in employment by occupational skill percentile, 1979–2007

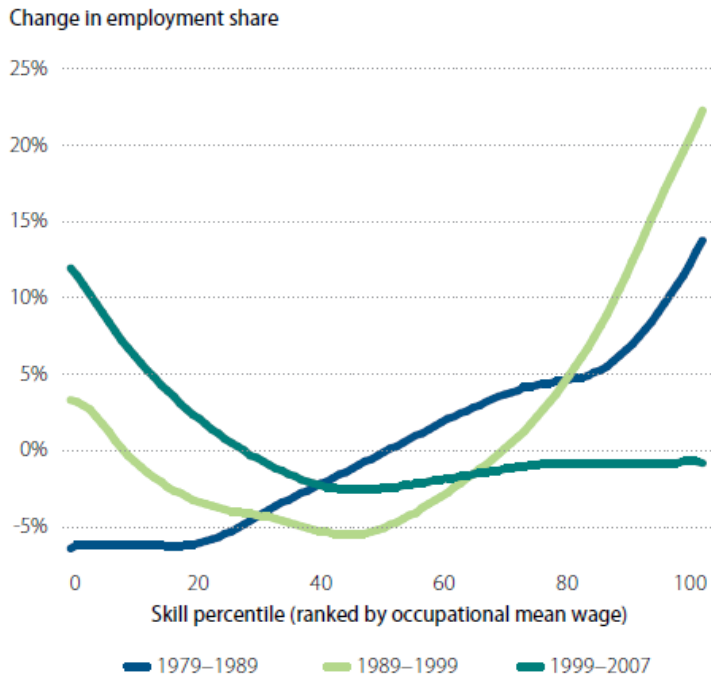
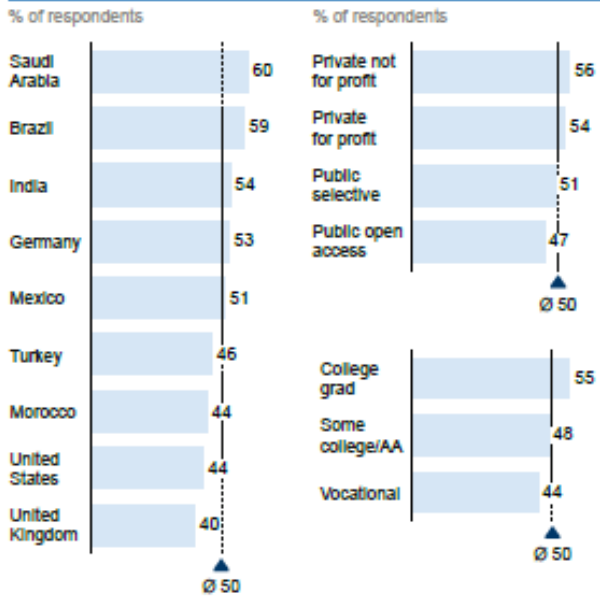


Figure 6: Employment Changes by Occupational Skill Level (source: The Hamilton Project and Center for American Progress)

Exhibit 1

Only half of youth believe that their post-secondary studies improved their employment opportunities

Students who believe their postsecondary studies improved their employment opportunities¹



1 My post-high-school education improved my chances of getting a job.

SOURCE: McKinsey survey, Aug-Sept 2012

Exhibit 2

39% of employers say a skills shortage is a leading reason for entry-level vacancies

Lack of skills is a common reason for entry-level vacancies



SOURCE: McKinsey survey, Aug-Sept 2012

Figure 7: Post-secondary Education Assessments (source: McKinsey & Co.)