# UNITED STATES BUSINESS AND INDUSTRY COUNCIL

*FIGHTING FOR AMERICAN COMPANIES AND AMERICAN JOBS SINCE 1933*

# TO SAVE AMERICAN MANUFACTURING:

## *USBIC'S PLAN FOR AMERICAN INDUSTRIAL RENEWAL*

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Although warnings about the crisis engulfing American manufacturing have been intensifying for several years now, the sector's woes continue to be significantly underestimated – certainly by official Washington and even by many manufacturers themselves. In fact, despite the current boost in growth fueled by deficit spending, tax cuts, mortgage re-financings, and other one-time stimuli, the decline of American manufacturing is fast nearing the point of irreversibility -- at least from the standpoint of restoring to world leadership a critical mass of industries producing in the United States.

The nation, in short, faces a manufacturing emergency. Unless drastic measures are taken quickly, this emergency will turn the United States into a second-class manufacturing power, greatly diminishing its own future economic prospects. Further, national security and flexibility in foreign affairs will be severely compromised. Finally, the international imbalances being created by the manufacturing crisis will likely push the world into a major dollar crisis and could cause a protracted depression.

In part, the manufacturing crisis reflects the economy's latest cyclical downturn and the deflating of the bubble of the 1990s. Likewise, the manufacturing employment portion of the crisis stems in part from the increases in productivity in recent years. But neither of these factors sufficiently explains the root cause of manufacturing's current troubles, which are the worst by many measures since the end of World War II, and that is the cumulative and continuing effects of two decades of misguided, ill-advised, and weak-willed U.S. trade and globalization policies.

During this period, Washington has consistently failed to open foreign consumption markets adequately to U.S. producers – despite years of promises and the fanfare that greeted each new trade agreement. In addition, the American government has failed miserably to combat predatory foreign trade practices aimed at undermining U.S. producers in their home market. Perversely, Washington has responded to these failures by encouraging U.S. manufacturers to supply their home market from low-cost third world production platforms like Mexico and China. And most U.S. multinational corporations, and indeed some of their smaller suppliers, have responded with enthusiasm.

## NO TIME TO LOSE

The most serious global macroeconomic dangers stemming from the continued flight of American manufacturing overseas have to date been avoided and may be postponed still further by continued financial policy legerdemain – though the faster America's international debts keep rising, the more difficult the challenge of correcting the imbalances. But regardless of when the crunch actually comes, the weakening of domestic manufacturing is already undermining the material foundations of American national success.

The prolonged wage slump triggered by the overseas migration of America's best-paying jobs on average has been rippling through the U.S. economy and American society for at least two decades. The loss of these important jobs represents a shrinking of the employment base needed for a middle-class standard of living, stable families, and the local and state tax revenues necessary for a first-world level of responsibly financed public infrastructure and social services. Consequently, Americans find increasingly at risk their hard-won 20th century gains in access to quality education, health care, and retirement security (whether paid for by a solvent public sector or a sufficiently broad-based and profitable private sector).

In addition, the manufacturing crisis raises serious questions about the U.S. economy's ability to maintain a high-tech, world-leading military without worrisome dependence on foreign products and technologies. Although it is true that defense-related imports come overwhelmingly from long-time allies or traditionally friendly countries, it is just as true that they are growing rapidly at a time when major disagreements increasingly mark the relationships between the United States and these countries.

Further, the massive loss of tax revenue – both corporate and personal – directly attributable to a disappearing industrial base will undoubtedly constrain America's ability to sustain military operations in both peacetime and wartime at levels that U.S. policymakers have come to take for granted. Thus the country faces a future in which the ability to project power and thereby affect events and outcomes the world over will be much more limited than anytime in the last century and a quarter.

Most worrisome, the decline of American manufacturing is quickly feeding on itself and gaining unstoppable momentum. Washington's continuing failure to secure equitable terms of trade forces more and more U.S. firms to compensate by outsourcing. These moves create powerful pressure for growing numbers of the remaining hold-out companies to follow suit.

The migration of prime contractors overseas inexorably pulls much of their supply chains with them. The export of blue-collar production work leads to the export of white-collar manufacturing-related work, as companies seek the advantages of locating researchers and designers near the factories they service. In fact, there is a continuous feed-back loop between R&D efforts and the factory floor, with the two functions, R&D and production, operating in tandem. And as is well documented, R&D and other technology work often produce a clustering effect, which draws labs and similar facilities from other industries in search of new synergies. The notion that the United States will retain high-end design functions while letting production migrate overseas is wishful thinking. Without major globalization policy changes, this vicious cycle of manufacturing flight cannot be turned into a virtuous cycle of manufacturing resurgence.

## LESSONS OF THE RECENT PAST

The following action plan for saving and reviving U.S. industry incorporates recent policy lessons that Americans simply can no longer afford to ignore.

First, although America's regulatory and tax systems have unnecessarily raised domestic business costs in many instances, the manufacturing crisis springs from far deeper roots. No regulatory, health care, or tax reform schemes that would produce acceptable economic, social, or political results can overcome the damage being done to American manufacturing by today's globalization policy failures. Improved industrial competitiveness cannot and should not be based on gutting the basics of a just, humane, and inclusive society. Fundamentally new globalization policies are the *sine qua non* for saving and reviving American manufacturing.

Second, the United States will always have more control over its own actions than over the actions of other countries. Therefore, the keys to reversing American manufacturing's decline lie neither in more market-opening trade agreements nor in efforts to micro-manage economic and social conditions overseas. Despite decades of so-called free trade agreements, too many foreign markets still remain too closed to U.S. exports. The main reason: Most of the world's countries view trade as a zero sum game, with a piece of the American domestic market as the prize. The handful of economies wealthy enough to consume American-made goods can erect new trade barriers faster than U.S. negotiators can even identify them. The U.S. government, moreover, has too much trouble enforcing its own laws and regulations here at home to imagine that enforcing foreign laws and regulations, even those imposed by future trade agreements, will be successful.

Instead, to achieve the necessary results, the United States must focus on managing its own behavior and controlling access to its own market, unilaterally conditioning that access on a strategic analysis of its own national needs and on acceptable practices by its trade partners. In addition, the United States must rely mainly on its own power and leverage to achieve satisfactory terms of trade. As the record unmistakably shows, "one-country, one-vote" international organizations like the World Trade Organization (WTO) too readily turn into mechanisms for undermining American sovereignty, diluting American power, and maintaining global economic free-riding.

Finally, Washington must recognize that simply promoting economic growth and higher incomes abroad will not alone cure U.S. manufacturing's ills and rebalance America's trade accounts. Most countries refuse to trust their economic fates to market forces or refuse to permit higher domestic growth to draw in proportionately higher volumes of imports. In short, too little commerce around the world is free enough to allow potential future growth to serve as a U.S. trade and manufacturing cure-all.

The following U.S. Business and Industry Council manufacturing blueprint emphasizes short-term emergency measures for reversing domestic manufacturing's decline and laying the foundation for its revival. But it also includes longer-term proposals for ensuring that U.S. trade and globalization policies do not revert to the practices that have produced today's crisis.

## EMERGENCY MEASURES

**1.** The President must declare that the United States faces a manufacturing, R&D, and outsourcing emergency no less threatening to America's long-term future than even the Great Depression. He must also make clear that the crisis stems mainly from the manipulation of world trading system by mercantilist countries and to the encouragement of "offshoring" by U.S. trade policy.

**2.** The President should create an Apollo Program-type task force in the federal government to oversee Washington's response to the manufacturing crisis. Its mission should be to restore domestic U.S. manufacturing to global preeminence and to boost domestic manufacturing employment and wages. The program should involve all agencies of U.S. government.

**3.** Federal R&D spending should be tripled and Washington should offer matching grants to industry. Special emphasis should be placed on tasking the national labs with helping to develop commercially viable, high-tech products to be manufactured in the United States.

**4.** The U.S. trade deficit should be quickly and dramatically reduced by imposing a "variable trade equalization tariff" on imports from countries running a trade surplus ten percent or greater of total bilateral trade. These tariffs should be increased each year until bilateral surpluses fall below the threshold level, at which time they would be removed. Tariffs should be imposed on U.S. trading partners as soon as surpluses reach the 10 percent threshold.

The United States should offer a partial exemption for the world's poorest countries, but only if concrete, measurable trade breaks from the other Organization for Economic Co-Operation and Development (OECD) countries follow suit and only if the developing country seeking the exemption demonstrates a commitment to democracy and to the economic advancement of all of its people. Exemptions are not intended to enrich corrupt, dictatorial elites.

In addition, exceptions would be made for energy imports and other commodities that are not found in the United States and for which no acceptable substitutes exist.

**5.** Companies manufacturing or assembling in the United States should be barred from treating service work performed overseas as a deductible business expense. Private companies that outsource overseas the processing of sensitive records, such as medical and financial records, must ensure that their subcontractors meet U.S. privacy standards or face stiff fines.

**6.** Washington should declare a moratorium on all current and future free trade talks pending development of new national trade strategy. The United States government clearly has lost the ability to negotiate trade agreements that enrich the great majority of Americans and strengthen the domestic manufacturing base on net. U.S. leaders should not engage in trade negotiations until this ability is regained.

To develop a fundamentally new national trade strategy, the President and Congress should appoint a National Trade Strategy Commission that includes representatives of business, plus civil society groups, such as labor unions and environmental groups. The business representatives on the Commission should be dominated by companies and industries that produce the great majority of their product and value in the United States. The Commission should also include representatives of the nation's science and technology and national security communities.

**7.** Washington should declare a moratorium on compliance with WTO panel decisions pending dramatic reform of the organization to reflect America's position in world economy. The United Nations Security Council veto and the International Monetary Fund/World Bank weighted voting systems are possible models of international organization structures appropriate to America's geopolitical and economic superpower status. If appropriate reform is not completed by the end of 2005, the United States should declare its intention to withdraw from the organization as soon as legally permissible.

**8.** Washington should declare a moratorium on compliance with North American Free Trade Agreement (NAFTA) panel decisions pending reform of NAFTA's dispute-resolution process to reflect U.S. predominance in the North American economy. In addition, NAFTA's rules of origin and external tariffs should be revised to offer meaningful trade preferences to goods with much higher levels of North American content.

**9.** The U.S. government should resolve the Foreign Sales Corporation (FSC) tax dispute with the European Union and the WTO by replacing the current FSC tax incentive with a major tax break for any company, either American or foreign-owned, that performs genuine manufacturing activity in the United States. Qualification for the tax break would require detailed certification that true manufacturing is occurring in the United States.

**10.** The United States should expedite procedures for anti-dumping and countervailing duty suits. The thresholds for standing, actionability, and remedies should all be eased. In addition, remedies should be extended to companies upstream and downstream from immediately affected industries, to ensure protection for suppliers and consumers, and to prevent foreign economic interests from using divide and conquer tactics against domestic industries.

**11.** The recent steel tariffs should be restored and expanded to cover industries using significant quantities of U.S.-made steel. Further, the option of extending the tariffs beyond the original three-year deadline should be left open in order to determine conclusively that foreign steel subsidization and dumping have ceased.

**12.** A stiff tariff should be imposed on countries determined by the U.S. government to be manipulating their currencies for trade advantage. In light of the Treasury Department's equivocation on the currency policies of Asian mercantilist nations, the definition of currency manipulation that now exists must be broadened. A strong dollar remains in the long-term interests of the U.S. economy, but foreign governments must not be able to distort trade flows to the advantage of their companies by giving them artificial cost advantages.

**13.** The defense industry must be treated by the federal government in a fundamentally different way from the commercial sector. It exists solely to serve the national interest and national security, and must be structured and managed accordingly. Therefore, a 65 percent U.S. content requirement should be imposed on all military procurement, rising to 80 percent in five years and 95 percent in ten years. This requirement should immediately cover the procurement of all goods and services for domestic military facilities and operations, and to the fullest extent possible cover foreign bases as well. Presidential waiver authority should be sharply limited, especially for countries that have records as problem traders or that demand offsets for purchases of American weapons systems.

**14.** Public money taken from the domestic economy by taxes or borrowing should be returned to the domestic economic economy by the procurement of American-produced goods and services. Procuring government services domestically is also necessary to ensure the continued privacy and security of the financial and health records of all Americans. Thus a 50 percent U.S.-content requirement should be imposed on all non-military federal procurement, rising to 80 percent in five years and 95 percent in ten years. Presidential waiver authority should be sharply limited. This requirement should immediately cover the procurement of all services for domestic facilities and programs.

**15.** The scheduled abolition of the Multi-Fiber Arrangement governing world trade in textile and apparel should be suspended indefinitely, pending a study of the effects of the MFA's abolition on domestic and third-world producers in these industries.

**16.** Stiff tariffs should be levied on countries that impose offset requirements on U.S. defense manufacturers.

**17.** The President should declare a moratorium on foreign acquisitions of U.S. defense-related companies pending completion of comprehensive study of the status of the roughly 1,500 such companies acquired since 1988 under the current policy framework and government screening system.

**18.** Strict, detailed country-of-origin labeling should be required on all food and agricultural imports.

**19.** Legal immigration into the United States should be limited to 500,000 annually. Enforcement measures to halt illegal immigration should be dramatically increased, including significant and sustained increases in the budgets of those federal agencies responsible for enforcing immigration laws.

Immigration at today's levels – both legal and illegal – can only serve to depress wages for American workers by artificially inflating the supply of labor. Moreover, the most likely victims of such massive immigration flows are the recent arrivals themselves, who are forced to compete directly for jobs with the unending flow of newcomers arriving right after them.

The H-1B visa program for technology workers should be abolished. A new federal commission comprised both of U.S. technology worker interests and tech industry interests should conduct a study to determine labor needs in technology industries and how they should be met.

## LONGER-TERM MEASURES

**1.** Washington must insist that any future trade agreements be strictly reciprocal and strongly enforceable by the U.S. government, unilaterally if necessary.

**2.** Any future U.S. trade agreements must include provisions penalizing signatories for currency manipulation, which, in fact, can be used to defeat or offset the effects of reducing or eliminating trade barriers.

**3.** The President should launch a major diplomatic campaign to press other OECD countries to increase third world imports, enforceable unilaterally by tariffs on the products of any non-cooperating OECD countries. Under-importing of third-world products by the European Union and Japan in particular has greatly increased the pressure on the U.S. market to absorb third-world production. Greater burden sharing in this vital sphere is urgently needed.

Because the overriding interest of U.S. trade policy is to advance the economic interests of the great majority on the American people and the long-term security and prosperity of the United States, Americans should feel no special obligation to import goods or services from third-world, or indeed any other, countries. Such imports are especially unacceptable if they sacrifice the interests of American workers and domestic companies. But a campaign to get Europe and Japan to do more is needed: (a) to counter perceptions that U.S. protectionism is the greatest current barrier to third world economic development; (b) to highlight America's record in promoting this development; and (c) to call attention to the poor import records of the other main OECD countries.

**4.** The United States should focus any new trade agreements on high-income countries capable of serving as final consumers of U.S. exports. Washington's recent focus on third world countries capable of serving only as re-export platforms has been a substantial contributor to today's current trade deficits. In particular, the United States should seek a free trade agreement with Europe that excludes agriculture. Washington should also take stronger measures to open Japanese and Korean markets, including unilateral tariffs if necessary.

**5.** The President should remove responsibility for monitoring and enforcing trade agreements from the office of the United States Trade Representative (USTR) and place it in the Department of Commerce. As the lead agency for negotiating new trade agreements, the USTR has every incentive to soft-pedal the deficiencies in both the structure and functioning of these agreements. Dividing these responsibilities would eliminate a major policy-making conflict of interest.

**6.** Congress should enact strict foreign lobbying reform covering all federal officials, including lifetime bans on working for foreign interests for former senior Executive and Legislative branch officials.

**7.** The Commerce and Defense Departments should be designated as co-chairs of the inter-agency Committee on Foreign Investment in the United States (CFIUS), which reviews all proposed foreign acquisitions of U.S. defense-related companies. Exon-Florio filings must be made mandatory, and the threshold for investigation lowered. With the Treasury Department chairing this panel for its decade-and-a-half of existence, national security concerns have not been adequately addressed in the decisions of CFIUS, which generally reflect only Treasury's desire to see surplus dollars in foreign hands repatriated effortlessly.

**8.** The President should commission immediate reports – written by special Commercial Action Teams composed mainly of industry representatives and some government officials – on foreign subsidies existing outside the steel industry and implement tariffs to offset them. Washington should first offer to negotiate the abolition of such subsidies, but it must insist on results that are achieved quickly, as well as completely verifiable and enforceable by the U.S. government.

**9.** The federal government must publish more complete and timely foreign trade and investment data. This data should include detailed information on the importing, sourcing, and employment trends of all multinational companies and in fact all companies that do business in the United States. The provision of the data to the appropriate government agencies must be made mandatory.

**10.** The President should launch a comprehensive review of all U.S. defense alliances to determine which remain relevant to 21st century U.S. interests. The President should explicitly state that foreign policy and defense considerations will no longer automatically trump the economic interests of the United States and the American people.

# STRONG – BUT ESSENTIAL – MEDICINE

No one should assume that implementing this manufacturing revival plan will be pain-free. All economic adjustments and transitions exact costs as well as create benefits. Those necessary to improve the long-run fundamentals of American manufacturing and strengthen the foundations of the U.S. and world economies as a whole will be that much more difficult because of the national and global economic excesses that were fostered since the completion of the "Tokyo Round" of international trade talks, but especially during the 1990s.

Specifically, some temporary slowdown in U.S. and global growth rates seems unavoidable. And thanks to the power of recklessly expanded international trade and investment, pushed unceasingly by economic ideologues and short-sighted multinational companies, achieving this slowdown will require serious restrictions on trade and investment flows.

Yet the only alternatives proposed to date are policies that are already proven failures, or that are surrenders to wishful thinking. Moreover, these responses can only postpone the day of reckoning, not prevent it. And just as permitting a disease to fester usually ensures that the needed treatment will be that much stronger, more painful, and less certain to work, permitting the manufacturing crisis to fester and inflating the global economic bubble further will only increase, not decrease the economic dangers facing America and the world.

The implementation of restorative measurers cannot be left to the good sense of Washington policymakers and elected officials. As a group, they have demonstrated convincingly time and again that they do not grasp the magnitude of the problems they have created and that they are bereft of comprehensive solutions. Instead, they prefer cosmetic changes, designed to relieve political pressure and ensure reelection.

If the necessary policy reorientation is to be accomplished, impetus must come from the remaining domestic manufacturers, their employees, their communities, and local and state governments, which are experiencing first-hand the budget crises caused in large part by globalization policies – whether the movement of plants overseas, company bankruptcies due to unfair foreign practices, high-tech and other services outsourcing, un-controlled immigration with the resulting disproportionate consumption of social services, etc. In short, grass roots efforts must reach critical mass to force Washington to change two generations of misguided policies.

If any political leaders or economic experts know how to solve the manufacturing and trade crises without the significant trade restrictions featured in our action plan, USBIC would welcome their ideas with open arms. But we would also be wondering what they've been waiting for. The time for comprehensive action to save American manufacturing has long since passed. Very soon there will be little left to save.

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The United States Business and Industry Council (USBIC) is a non-profit, business advocacy organization of more than 500 firms from across the nation. From its founding in 1933, USBIC has championed America's domestic family-owned or closely-held companies—our nation's "main street" businesses—who create new products, jobs and growth here in the United States. The Council's mission is *to expand our domestic economy, with particular emphasis on our manufacturing, processing, and fabricating industries, and through the resulting growth to extend a high standard of living to all Americans.* USBIC positions on tax, business regulation, and international trade issues always receive significant attention, as Congress, the Administration, and the media know they can count on the Council for objective, principled viewpoints. USBIC plays a critical national policy role through its education campaigns, lobbying efforts, press conferences, bipartisan staff briefings, op-ed pieces, and publishing.