NTMA/PMA One Voice
Domestic Small and Medium-Sized Manufacturing (SMM) Policy Recommendations
Guiding Principle for a Domestic Small and Medium Manufacturing Strategy
As of January 10, 2013

The U.S. needs a vibrant, competitive small and medium manufacturing capability in order to:

- create family sustaining jobs;
- promote innovation;
- drive economic growth; and
- provide for our national security.

We are pleased that for the past few years, policymakers in Washington are placing a higher public emphasis on manufacturing and competitiveness. There are encouraging signs from Washington that Congress and the White House recognize the need to develop federal policy and programs to help middle market U.S. manufacturers, both small and large. It is more important than ever that the federal government and industry work together to develop an industrial strategy designed to build and grow a sustainable domestic manufacturing sector that can protect our national security and strengthen our economy now and into the future. In order to succeed, these policies must encourage domestic manufacturing, create an environment which incentivizes the return of offshore jobs, accelerate growth, and level the domestic and international playing field that has seen so many American jobs and businesses disappear or go offshore.

Small and medium-sized manufacturers are fundamental to our country's economy and central to strengthening our domestic defense industrial base. These businesses manufacture goods, equipment, and produce other value-added activity including a wide variety of energy-saving and renewable energy products. In fact, small and medium-sized manufacturers support the viability of every key domestic industry sector ranging from agriculture and mining, energy, construction and transportation, to aerospace, medical devices, electronics, national defense, and homeland security. Often, the products of middle-market manufacturers in the domestic supply chain are not readily identified since their contribution, though essential, is often internal, part of an assembly or good and frequently under the cover of a machine.

A modern globally competitive economy cannot exist without complete and vibrant manufacturing supply chains. Without a globally competitive manufacturing sector, we could not defend this nation, would not have solar panels, wind turbines, lightweight vehicle parts, water-efficient plumbing products or energy-efficient appliances. The majority of our industry is comprised of small and medium-sized firms; many of which are still family-owned.

The current government structure inhibits the coordination among the various agencies and manufacturers in developing critical policy and data collection. More than twelve million American manufacturers still lack a comprehensive and fully resourced one-stop center within the federal government to address all their needs. For example, the Office of Manufacturing and Services resides under the International Trade Administration within the Department of

Commerce restricting their ability to work on a host of issues. The government needs a manufacturing office where government agencies can coordinate among one another as they develop policy that impacts manufacturing – from space exploration to clean energy technologies to financial services reform. We applaud the Administration for initiating reorganization efforts in 2012, however, those have not progressed and a concern remains about the overemphasis placed on exports.

U.S. manufacturers are at a 20 percent competitive cost disadvantage when compared with the nation's nine largest trading partners, according to published reports. Rather than support our manufacturing sector, historically, the government can often serve as the largest impediment to our competitiveness in the global marketplace, particularly for the 98% of manufacturers classified as small businesses.

While some positive programs exist, much of this global disadvantage is due to government-imposed costs and outdated policies. As the President said in his January 18, 2011 Executive Order, federal "Agencies must identify and assess available alternatives to direct regulation, including providing economic incentives to encourage the desired behavior." Federal government policy impacts every stage of manufacturing but we must strike an appropriate balance to improve the climate for small and medium-sized manufacturers.

Foundation of a Domestic Small and Medium Manufacturing Strategy
Issue: Tax Reform
In order to strengthen the competitiveness of small and medium-sized manufacturers, we need to simplify and stabilize the tax code and implement policies that encourage investment and eliminate tax disadvantages. The current tax structure is a myriad of high rates, temporary credits, loopholes, and outdated policy that restricts growth and reduces competitiveness.

For example, the U.S. now has the highest corporate tax rate among any of the industrialized nations. Sole proprietorships and other "pass-through" entities, such as S Corps and LLCs, account for 72 percent of all small businesses in the U.S, 70 percent of all manufacturers, and 54 percent of all private sector employees. Due to their business structure, taxes are paid by the owners at individual rates. The higher individual rates paid by these smaller manufacturers places them and the manufacturing industry at a disadvantage not only against foreign competition but even against domestic C Corporations. Correcting the S-Corporations and business passthrough imbalance as part of comprehensive tax reform is critical.

Furthermore, manufacturing drives innovation with 70% of all R&D credit dollars going to pay salaries of high-skilled workers conducting the bulk of research in the nation. However, due to the uncertainty each year over extension of the R&D Tax Credit and other provisions such as bonus depreciation, many manufacturers lack the ability to invest in a long-term business strategy.

The U.S. government must reexamine tax policy from an international trade and competitiveness standpoint. Nearly thirty years have passed since Washington overhauled tax policy, which should reflect today's realities and not the priorities of the 1980's.

Other industrialized nations developed a tax policy with the competitiveness of their industries in mind. From lower corporate tax rates to the Value Added Tax, many of our trading partners use their tax code to support domestic manufacturing and put American companies at a disadvantage.

Recommendations: Tax Reform

1. The U.S. Government must immediately begin to stabilize and simplify the code, reduce the corporate and individual tax rates that manufacturers pay, and make permanent manufacturing incentives such as the R&D Tax Credit and bonus depreciation.
2. The U.S. Government must immediately begin a review of long-term solutions and all options to completely restructure the taxation of American businesses, particularly manufacturers – whether individual/family-owned or traditional corporations. Business would not need temporary business credits if tax policy did not continue to restrict manufacturing growth.
3. Any business consumption tax considered under tax overhaul should be invested to reduce the tax burden on manufacturers.
4. The U.S. must act on competitive disadvantages created by foreign government's tax policies such as export rebates which violate international trade law.

Issue: Workforce Recruitment, Training, Retention

A well-trained and skilled workforce with nationally-portable standards is essential to the future success of manufacturing in America. It is the driver of innovation. Workforce development is more than job training programs – a comprehensive policy covers K-12 education, recruitment, training, and retention.

Small and medium-sized manufacturers in particular maintain excellent relationships with their workers, often employing multiple generations of the same family, and paying excellent wages. However, small and medium-sized manufacturers often lack an organized recruitment base enjoyed by larger corporations in various industries.

Smaller manufacturers in particular are struggling to fill open positions due to a lack of available skilled workers. Businesses must play a more active role in development of education policy to help ensure the future manufacturing generations receive the skills necessary to meet the needs of employers. The U.S. must renew its focus on the core science and math curriculum to ensure a vibrant manufacturing base.

The U.S. Government must publicly promote a national manufacturing recruitment strategy to attract the next generation of skilled manufacturers into the industry.

Recommendations: Workforce Recruitment, Training, Retention

1. Federal, State, and Local Governments should coordinate an industrial strategy with K-12 schools, community and technical colleges, and small and medium-sized manufacturers and trade groups that encourages careers in manufacturing, whether through robotics or other programs.
2. The federal government should coordinate funding efforts for apprenticeship programs aimed at jobs in the targeted industries, as part of its effort to strengthen community colleges and vocational institutions.

3. The federal government should work with educators and businesses to inform students of the benefits of manufacturing as a career and assist in the recruitment and placement of a future generation of manufacturers.
4. Manufacturers need a set of national industry-recognized skills to ensure employees and employers can match the right people to the right jobs.
5. The U.S. Government should act as a partner bringing U.S. Veterans and manufacturing employers together.

Issue: Regulations

Government regulations have a firm place in American business and society. However, the U.S. Government should take a more cooperative approach, rather than a punitive enforcement tact with manufacturers. Federal regulators should adhere to the President's January 2011 Executive Order and eliminate overlapping, ineffective and costly regulations and comply with small business guidelines. Congress must stop the NLRB, OSHA, and EPA from placing further burdens on employers without first considering the impact on small businesses.

This is particularly the case when agencies do not adhere to the Regulatory Flexibility Act and the Small Business Regulatory Enforcement Fairness Act. The U.S. Government should enhance and enforce the Regulatory Flexibility Act and support small businesses manufacturing in America.

Recommendations: Regulations

- Agencies should adhere to the President's January 2011 and May 2012 Executive Orders and review and eliminate overlapping, ineffective and costly regulations.
- OSHA and other agencies should comply with small business guidelines in place governing and often exempting companies from compliance with ineffective and costly regulations.
- The NLRB should not implement new rules which divide employees from employers, especially at the small business level.
- EPA should not implement changes to the Toxic Release Inventory (TRI) reporting requirements and target nickel users.

Issue: Trade

Trade is a significant engine of growth for small and medium-sized manufacturers with proper enforcement and open access to foreign markets. The government must view trade policy not just in terms of imports and exports but also our overall approach to manufacturing policy including energy, taxes, and finance. For example, restrictions on domestic emissions without similar involvement by our trade partners has a direct impact on our global competitiveness. The U.S. must ensure we have a vibrant defense industrialized base to supply our armed forces and protect the nation.

As developing countries continue to grow and increase their manufacturing exports, they must comply with enforceable international trade laws. This requires cessation of unlawful loan, energy and other subsidies such as currency manipulation, reforming state sponsored corporations, improved transparency, and the removal of tariff and non-tariff barriers to U.S.

goods. The alarming damage to U.S. manufacturers caused by State-Owned Enterprises (SOEs) must become among the U.S. Government's top priorities. We applaud USTR for raising this issue in recent rounds with the Chinese in particular. U.S. manufacturers can compete against any foreign business but not against foreign governments.

The U.S. should work to open up markets overseas while improving the data available. Most downstream middle-market manufacturers provide value-added services on products that are exported. While the government should have a better way to measure these indirect exporters and encourage more small and medium-sized manufacturers to increase direct and indirect exports, much data is missing to measure imports of downstream products.

Recommendations: Trade

1. Strengthen enforcement of trade agreements and laws such as those aimed to eliminate illegal subsidies, imports and tariff and non-tariff barriers, and control State-Owned Enterprises.
2. For purposes of national security the U.S. must reduce its reliance on foreign production and encourage domestic production of defense components and equipment.
3. Review North American Industrialized Classification System codes and ensure each six-digit NAICS industry has a corresponding Harmonized Tariff Schedule (HTS) code so that both policymakers and manufacturers have the data they need to make informed policy and business decisions.
4. Once the government has the data it should undertake a review of what parts of recent trade agreements have been effective and what trade disputes can be addressed in future agreements.

Issue: Energy

Energy policy, from fuel prices to electricity usage to environmental regulations, impacts every step of the manufacturing supply chain. Downstream suppliers, particularly those who purchase energy intensive raw materials such as steel, feel the pressure of energy costs from both their suppliers and customers – even if a regulation exempts a company their size. Increased energy costs combined with fewer competitively priced domestic sources of raw materials reduce the global competitiveness of domestic small and medium-sized manufacturers. The Federal Government should not support energy or environmental policy that will substantially increase those costs and further limit resources.

Whether federal efficiency and consumption mandates or incentives to purchase low-energy equipment, all require costly resources for a small business. Placing new and ineffective mandates on manufacturers in the supply chain will reduce their competitiveness. As the President pointed out in his January 18, 2011 Executive Order, the federal government must rethink the way it regulates industry.

Federal energy programs intended to foster new energy efficient technologies, are often directed at larger manufacturers and lack a small business requirement. The government should work with the private sector to authorize and support the investment in domestic alternative fuel and energy sources. The government has not effectively explored alternative sources of clean and conventional resources especially with the increased availability of natural gas sources.

Recommendations: Energy

1. Encourage development and implementation of new technologies without taxing energy-intense industries which sends a ripple effect throughout the manufacturing sector, regardless of business size or industry.
2. The U.S. must explore all clean and conventional long-term options to current energy resources such as nuclear, wind, coal, natural gas, and solar along with new technology and conservation.
3. As indicated by the President in his Executive Order, federal "Agencies must identify and assess available alternatives to direct regulation, including providing economic incentives to encourage the desired behavior."
4. Ensure that energy programs are available to all small and medium-sized manufacturers, including those in the lower tiers of the production chain, and streamline their application process.

Conclusion

We must focus on our strengths. Potato chips or microchips, weapons systems or medical devices, green jobs or blue tech jobs, we need them all. However, their lasting growth in America will not occur until there is a comprehensive National Manufacturing Strategy that unleashes the genuine strength of small and medium-sized businesses allowing us to compete in the global economy.

The U.S. must focus on a significant reinvestment in the manufacturing industry in order to drive critical innovation, develop the skills of the next generation of workers, and generate effective policies that sustain a favorable business climate so that manufacturing jobs grow in this country.