

**Testimony of The Honorable Albert A. Frink  
Assistant Secretary for Manufacturing and Services  
International Trade Administration  
U.S. Department Of Commerce  
Before the  
Subcommittee on Regulatory Affairs  
Of the  
Committee on Government Reform  
U.S. House of Representatives  
Washington, D.C.  
April 12, 2005**

**Introduction**

Good Morning, Madam Chairman, Ranking Member Lynch and other Members of this Subcommittee. Thank you for asking me to appear today to discuss the current state of manufacturing in America. I would also like to update you on the Department of Commerce's progress in implementing recommendations from the *Manufacturing in America* report, including regulatory reform efforts. But, first, allow me to congratulate you on assuming the Chair of this new Subcommittee. This Subcommittee will be an important forum for addressing regulatory issues concerning U.S. businesses. I look forward to working closely with you and the other members in the months ahead.

**Current State of Play in Manufacturing**

Strengthening American manufacturing is a top priority for President Bush and Secretary Gutierrez and we are taking definitive steps to ensure that manufacturers remain competitive in the global marketplace, including assessing the impact of regulation. Manufacturing is an integral part of the U.S. and global economies. It is part of the network of inter-industry relationships that create a stronger economy and the conditions for growth. The sector currently accounts for 14 percent of GDP and employs over 14 million workers.<sup>1</sup> The United States is the world's largest economy and has the world's largest manufacturing sector. In fact, U.S. manufacturing alone would be the 7<sup>th</sup> largest economy in the world – nearly equal to China's entire economy.<sup>2</sup>

The U.S. economy went into recession in early 2001 and the President and Congress quickly responded with just what the economy needed: tax relief. Tax relief has continued to help revive the general economy, and the manufacturing sector in particular. Let me give you a few

---

<sup>1</sup> Bureau of Labor Statistics, Department of Labor, and Bureau of Economic Analysis, Department of Commerce

<sup>2</sup> International Monetary Fund

economic indicators to describe the current state of play in manufacturing:

- **Manufacturing output** in February 2005 was 10 percent above the recession low in the fourth quarter of 2001<sup>3</sup>
- **Manufacturing productivity** has been growing rapidly over time and has increased 76 percent since 1990, while productivity in the entire economy rose 42 percent for the same period. Manufacturing productivity is up 4.7 percent from a year ago<sup>4</sup>
- **Manufacturing profits** continue their upward trend since the recession low and have risen by more than 25 percent<sup>5</sup> from last year
- **Manufacturing employment** is at 14.3 million, up 23,000 for the year
- **Manufacturing wages** have increased since the fourth quarter of 2001. Nominal hourly wages of manufacturing production workers increased from \$14.95 per hour to \$16.39 per hour between the fourth quarter of 2001 and the first quarter of 2005<sup>6</sup>
- **Manufacturing capacity utilization** has increased from 72.6 percent in the fourth quarter of 2001 to 78.5 percent in February 2005<sup>7</sup>
- **Manufacturing industrial production index** has gone up from the fourth quarter of 2001 when the monthly average of this index was 110.4. Industrial production in the sector has increased by 9.4 percent to a value of 120.9 as of February 2005<sup>8</sup>
- **Manufactured goods shipments** are also on the rise from the third quarter of 2001, when the monthly shipments averaged \$321.3 billion per month. In January of 2005 shipments totaled \$389.4 billion, an increase of \$68.1 billion, or 21.2 percent<sup>9</sup>

International trade is also vitally important for the manufacturing sector. Exported U.S. manufactured goods account for over 60 percent of all U.S. exports of goods and services, while supporting over 7 million American jobs. Approximately 50 percent is directly attributable to the manufacturing sector with the balance in supplying support from sectors outside of manufacturing. In fact, U.S. manufactured exports are up 12 percent from a year ago and reached \$624 billion in December 2004.<sup>10</sup>

---

3 See Federal Reserve Board, Industrial Activity: Industrial Production and Capacity Utilization G.17. March 2005

4 Bureau of Labor Statistics, Department of Labor

5 U.S. Census, Department of Commerce

6 Bureau of Labor Statistics, Department of Labor

7 Federal Reserve Board

8 Federal Reserve Board

9 U.S. Census, Current Industrial Report M3

10 U.S. Census Bureau, Foreign Trade Statistics

We at the Department of Commerce are confident that the outlook for manufacturing is good, but we cannot be complacent. The domestic and global economies are fiercely competitive and we will need to work very hard to stay on top. Overall competitive conditions for the United States have been improving and the manufacturing sector is doing well and will do even better in the future.

### **The President's Plan:**

President Bush is committed to building an economic environment that encourages innovation, lowers the cost of doing business, makes our economy more flexible and promotes economic growth. For example, the President's plan:

- Allows families to plan for the future by making tax relief permanent.
- Encourages investment and expansion by restraining Federal spending and reducing regulation.
- Makes our country less dependent on foreign sources of energy through a comprehensive national energy policy.
- Expands trade and levels the playing field to sell American goods and services across the globe.
- Protects small business owners and workers from frivolous lawsuits that threaten jobs across America.
- Lowers the cost of health care for small businesses and working families through Association Health Plans, tax-free Health Savings Accounts, and credits for employer contributions to Health Savings Accounts, Medical Liability Reform, and health information technology.
- Prepares workers for jobs in the 21st century by improving school standards while reforming workforce training and increasing the number of people served.

We are making great strides in supporting the President's plan through implementing the recommendations of the *Manufacturing in America* report. With 18 specific recommendations completed in less than one year, the Department of Commerce will continue making progress on these recommendations and other efforts to ensure the competitiveness of all U.S. manufacturing businesses.

## **Implementing recommendations from the *Manufacturing in America* report**

Madame Chairman, in order to advocate more strongly for the interests of U.S. manufacturers, I set out to learn what was most important to them. Since taking office in September 2004, I have visited more than 70 manufacturers, chaired 47 roundtable discussions, attended three Chamber of Commerce meetings, addressed 24 industry association groups, participated in three Presidential Export Council meetings, led an eight-day trade policy mission to China, met with senior officials in Japan and presided over two Manufacturing Council meetings. I am pleased to tell you that there is a renewed optimism in the manufacturing sector and many of the manufacturers I spoke with have plans to increase investment and hire more workers. The concerns expressed during my “Listening and Learning Tour” are being addressed through our implementation of the key recommendations of the *Manufacturing in America* report:

- Enhance government’s focus on manufacturing competitiveness
- Develop analytical expertise and strategies to assess manufacturing competitiveness
- Reduce the cost of regulation and legislation
- Promote open markets and a level playing field
- Facilitate investment in innovation and developing strategies to expand U.S. manufacturing

I will continue to review the progress in each of these areas and especially look for ways to encourage well thought-out, cost-effective regulations.

### ***Enhance Government’s Focus on Manufacturing Competitiveness***

Manufacturing and Services (MAS) leadership is now in place within the International Trade Administration, where we are addressing manufacturing issues and reaching out to all manufacturing constituencies. We now have an Assistant Secretary for Manufacturing and Services, a Deputy Assistant Secretary for Industry Analysis and a Director for the Office of Economic Analysis. We will continue to build this team to ensure that the concerns of manufacturers are heard and addressed.

In April 2004, the Department of Commerce established the Manufacturing Council, which is structured along the lines of the Industry Trade Advisory Committees (ITACs), to provide oversight and advice on the implementation of the President’s Manufacturing Initiative. Secretary Gutierrez will work directly with the Council and rely on its recommendations. In fact, his first domestic trip as Secretary was to the Manufacturing Council’s February meeting in Dearborn, Michigan.

The Council will play an integral role in identifying priority manufacturing issues and advising the Secretary. The Council has already prepared task force reports on workforce issues, tort reform and market access. These on-going dialogues will provide sound information about the needs of U.S. manufacturing and the impact of federal government efforts.

Secretary Gutierrez will soon ask fellow cabinet secretaries to each name a manufacturing liaison to serve on an Interagency Task Force on Manufacturing. This Task Force will facilitate

a coordinated Federal approach to the challenges facing the sector, including regulatory issues.

***Develop Analytical Tools or Procedures and Expertise to Assess Manufacturing Competitiveness***

We are working closely with the Small Business Administration Office of Advocacy and the Office of Information and Regulatory Affairs at OMB and others to develop analytical tools and expertise to assess manufacturing competitiveness. These tools will provide us with the means to better gauge the larger economy-wide effects of regulations and help us determine the validity of pre-regulation forecasts. As such, our analytical focus will be both in assessing new regulations as well as identifying existing regulations that are appropriate for reform.

We are recruiting skilled economists to support this new initiative and will reassign staff to this activity as needed. Additionally:

- In May, we are launching an intensive five-day training seminar for our analysts to develop expertise in the federal regulatory process and in conducting in-depth cost benefit analyses of current and proposed regulations.
- We also recently signed a first-ever Cooperative Agreement with George Mason University to provide a formal framework for enhancing the educational opportunities and skills of Manufacturing and Services staff, which, in turn will improve the industry and economic analysis conducted in the organization.

***Facilitate Investment in Innovation and Developing Strategies to Expand U.S. Manufacturing***

Innovation is critical for the continued competitiveness of U.S. manufacturing and the U.S. economy as a whole. We must continue to support a business climate where innovation is a fundamental business practice as outlined in the President's pro-growth strategy.

The Department of Commerce currently chairs an interagency working group on manufacturing R&D which serves as a forum for developing a consensus and resolving issues associated with manufacturing R&D policy, programs, and budget guidance and directions. This helps ensure coordination of innovation and productivity-enhancing technologies conducted by the Federal government. We also facilitated the creation of a National Virtual Network of Centers of Manufacturing Excellence and established cooperative research programs that will focus on manufacturing technologies among national laboratories, universities, community colleges, and local technology development associations. The President signed Executive Order 13329, *Encouraging Innovation in Manufacturing*, through the Small Business Innovation Research Program (SBIR). The Department of Commerce is developing action plans to comply with this Executive Order.

***Promote Open Markets and a Level Playing Field***

Open markets foster innovation, growth and help keep our manufacturers on the cutting edge. We will continue to work with the Office of the United States Trade Representative to promote open markets and ensure a level playing field. I recognize the integrity of this on-going work must be maintained as we build new capabilities to ensure that manufacturers remain

competitive. Let me illustrate some of the work we undertake to support U.S. manufacturers:

- We provide critical input and analysis during virtually all trade and trade related negotiations to ensure that U.S. industries' priorities, especially those of our manufacturers, are taken into account and domestic sensitivities are factored into the Administration's negotiating position.
- We identify best export prospects for U.S. firms based on a methodology that incorporates data analysis and assessments from ITA's industry specialists and country desk officers, effectively linking agreements to the National Export Strategy.
- We publish a variety of comprehensive reports for U.S. suppliers after each negotiated trade agreement. These reports, which are distributed to the business community through US Commercial & Foreign Commercial Service, (US&FCS) posts, focus on export opportunities for specific sectors and agreement-wide gains.
- We work to defend the interests of U.S. manufacturers by conducting comprehensive analyses of sanctions against U.S. exports and by developing recommendations for sanctions against foreign countries resulting from trade disputes.

In addition, ITA has taken several measures domestically to combat unfair trade practices affecting U.S. manufacturing. These include:

- The establishment of the Office of Investigation and Compliance to ensure that our trading partners honor their commitments.
- The creation of the Unfair Trade Practices Task Force to go on the offensive and attack the underlying causes of inequitable trade.
- The placement of intellectual property rights experts in several countries to assist with implementing the WTO Trade and Intellectual Property Rights (TRIPS) agreement.

Similarly, because China's trading practices are a continuing major concern to the Department, we have undertaken a number of new steps to reinforce the Administrations' strategy on China. These include establishment of the Intellectual Property Rights (IPR) Policy and Compliance Investigations Office, increased staffing and recruitment of top language-qualified China experts to manage our China compliance efforts, the creation of a China Office in our Import Administration to focus and deepen our expertise on unfair trade cases from China, and for the first time, using technology to enable compliance officers in China and the United States to work collaboratively on compliance cases in the Market Access and Compliance Bureau on a real-time basis.

International trade is an important means for improving the U.S. manufacturing environment,

and the Department will continue to be vigilant about the trading practices of our partners.

### ***Reduce the Cost of Regulation and Legislation***

Now, let me turn to the costs of regulation and legislation.

The Commerce Department supports maintaining high standards for the environment, health, worker safety and other issues that affect our quality of life. Regulations and regulatory reform efforts must be well thought-out and cost-effective while achieving intended goals.

The government must ensure that regulations designed to improve our quality of life are effective and equitable, and that the cost of compliance is minimized to remain competitive in the global marketplace. Reducing the cost of compliance may often be a matter of fine-tuning the implementation of the regulation as opposed to the total overhaul or elimination of the regulation. Or, it might just mean applying some common sense.

This Administration is proud of its activities in the field of regulation and has an excellent record. John Graham, who is here today, highlighted the following points from OMB's draft 2005 report on the Costs and Benefits of Federal Regulations:

- The estimated annual benefits of Federal regulations reviewed by OMB from October 1, 1994 to September 30, 2004 range from \$68.1 billion to \$259.6 billion, while the estimated annual cost range from \$34.8 billion to \$39.4 billion.
- The average yearly cost of major regulations issued during the Bush Administration is about 70 percent less than over the previous 20 years.
- The average yearly net benefit of the major regulations issued during the Bush Administration is over double the yearly average for the previous eight years.

Fully assessing the costs and benefits of federal action is complex and resource-intensive. Also, factors that directly impact manufacturing competitiveness must be addressed including: potential declines in product quality, price-induced changes in consumption, loss of business freedom, privacy concerns, security measures, innovation and others.

Regulations often disproportionately affect manufacturing. A study commissioned by SBA's Office of Advocacy found that manufacturing firms face a total regulatory burden approximately six times greater per firm than the average for all firms, and a regulatory burden per employee approximately two times greater than the average for all firms<sup>11</sup>.

The additional cost of regulations to small businesses is particularly worrisome. Economies of scale can result in small businesses being disproportionately impacted by regulatory costs.

---

<sup>11</sup> Crain and Hopkins, the Impact of Regulatory Costs on Small Firms: A Report for The Office of Advocacy, U.S. Small Business Administration. 2001

Equally worrisome to small and large businesses is the increasing regulatory requirements over time.

Clearly, we must strive to reduce unnecessary burdens that negatively affect U.S. manufacturers, while maintaining the spirit and effectiveness of those regulations intended to improve our quality of life. Within Manufacturing and Services, we maintain expertise across a range of industry sectors, including aerospace, motor vehicles, machinery, raw materials, information technologies, and services, to name a few. We will work with OMB, SBA and the regulatory agencies to use this unique expertise to provide assistance, analyses, and recommendations where appropriate.

The 2004 draft OMB Report to Congress on the Costs and Benefits of Federal Regulations also provides an example of how collaborative public-private partnerships can help reduce the burdens imposed by unnecessary regulations. OMB requested public nominations of specific regulations, guidance documents and paperwork requirements that, if reformed, could result in lower costs, greater effectiveness, enhanced competitiveness, more regulatory certainty and increased flexibility. In response to this solicitation, OMB received 189 distinct manufacturing reform nominations from 41 commenters. OMB, in consultation with the Department of Commerce and other federal agencies, determined that 76 of these have potential merit and justify further actions.

The 76 reform priority nominations were categorized as follows:

<b>Agency</b>	<b>Nominations</b>
Environmental Protection Agency	42
Department of Labor	19
Department of Transportation	5
Department of Homeland Security	3
Federal Communications Commission	2
Department of Agriculture	1
Department of Commerce	1
Department of Health and Human Services	1
Department of The Treasury	1
Equal Employment Opportunity Commission	1

Source: Office of Management and Budget, Regulatory Reform of the U.S. Manufacturing Sector

Future actions on these reform nominations range from performing a priority investigation to issuing modernized regulations. Public participation will be solicited before any regulatory reforms are adopted. We will work with OMB and federal regulatory agencies to assess how any proposed changes might affect manufacturers.

## **Conclusion**

In closing, I have spent my entire career in the business sector building a manufacturing company. One of the lessons I have learned, is that business continually needs to innovate to grow, produce new and better products, and remain competitive. Many manufacturers are implementing lean production procedures to remain competitive. While improved means of production is important, I continue to convey that without innovation there is no life after lean.

There are no magic bullets. We realize there are many challenges facing U.S. manufacturing and while we are making progress, there is much more to do. A strong and vibrant manufacturing sector is critical to providing good jobs and maintaining a growing healthy economy. President Bush and Secretary Gutierrez are committed to taking actions that create conditions for economic growth and innovation in the manufacturing and service sectors. We are also devoting renewed efforts to strengthen education, retraining, and economic diversification.

I look forward to working with this Subcommittee to meet the challenges facing U.S. manufacturing and welcome any questions you may have. I am also very interested to listen to the views of the Subcommittee on how we in Commerce might best advance these efforts.

Thank you.