

An Agenda For Growth, Productivity and Manufacturing

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It is a great pleasure to be here in the Volunteer State and with this august assembly. I never pass an emergency vehicle without admiring the marvelous technology and workmanship that goes into those vitally important vehicles. You are in the business of saving lives. I cannot imagine any more important business to be in.

I hasten to add that I did not come to Nashville with a guitar, for which you should all be grateful. I can neither play nor sing. But I can talk, so let's get to it. Or as Will Rogers used to say, it's my job to talk, and it's your job to listen, and whoever gets done first can just get up and leave.

We are embroiled in one of the most extraordinary political campaigns I have ever seen. I must confess that in my humble opinion both major parties could have selected more credible presidential candidates than the two we see before us. Be that as it may, it is what it is. We must choose one or the other.

I have been particularly disappointed in the thrust of both campaigns which are missing many of the major issues that should be front and center on the table.

Foremost among these is economic growth. As Jim Carville famously said years ago, on behalf of another Clinton, “It’s the economy, stupid.”

Most of the anger and dismay at large in our country today is born of economic distress. Many working people have been losing ground for years. The central issue facing the country today is anemic economic growth that stems from meager gains in productivity. As a result, good jobs are increasingly hard to find.

The weakness in productivity is a theme that Fed Chairman Janet Yellen keeps returning to. She believes that productivity is key to prosperity, and she is right. The economic picture does not look bright.

Looking around I see the inevitable slowdown in the auto sector, weak capital spending, and slack aggregate demand. Yellen says we are stuck at 2 percent growth this year and next. This is due to slow growth globally, weak productivity here at home and extremely high financial uncertainty. Notwithstanding the financial uncertainty, the Fed made it clear when not raising the benchmark rate that interest rates will remain low indefinitely.

I should add that Yellen and the Fed are exacerbating our problems with their endless debate about whether to hike interest rates. The sad fact is that the Fed has run out of ammunition. It has always relied on manipulating interest rates to fine tune the economy, but the old rules no longer apply.

So the Fed tried something new – quantitative easing – which served mainly to jack up the stock market without boosting economic growth.

The Fed is losing credibility. If the Fed cannot manage the economy, Congress will try its hand at it. That is a thought unlikely to calm the nerves of investors and business executives.

Let's talk about where the real wealth comes from. There is a pernicious myth that we have lost our manufacturing base, and that our economy really doesn't need manufacturing anymore. I would like to rebut that myth with facts and figures.

It is true we lost about 5.7 million manufacturing jobs in the first decade of this century. That is a major reason for the economic dislocation that afflicts millions of our fellow citizens. Manufacturing jobs have traditionally offered lower income people access to the middle class. The erosion of our middle class is very much a result of the loss of those manufacturing jobs.

But most of the jobs that were lost were lower skill positions that were likely doomed anyway by advancing technology. The reality is that manufacturing has entered a new phase increasingly dependent on digital technology.

In fact, because of these dramatic technological changes manufacturing has become a hybrid powerhouse that combines manufacturing and services that is blurring the traditional distinction between the two. As manufactured products and processes become more complex and high tech, they give rise to a host of skilled positions in nonmanufacturing such as logistics and transportation, customer service, technical support, regulatory and safety specialists, distribution employees trained in use of information driven tools for receiving, storing and picking, the list goes on and on.

According to a recent study by the McKinsey Global Institute, 34 percent of manufacturing jobs are service-type functions. And there are millions more in service industries that tend to spring up around manufacturing facilities. You can see this taking place in your own industry.

Thus, we are seeing growing evidence that manufacturing supports far more jobs in other sectors than previously thought. For example, Intel Corporation has a plant in Washington County, Oregon, employing 16,250 people in the design, manufacture and marketing of microprocessors. A recent study by ECONorthwest, a credible research group, concluded that every 10 jobs at that Intel installation supported another 31 jobs in other sectors at above average wages -- a three to one job creation ratio.

Simply stated, manufacturing is where real wealth is created. Because manufacturing is so intensely dynamic, it supports many jobs in other sectors. A study by the Manufacturing Institute, which I was privileged to lead, showed that each manufacturing job supports many jobs in other sectors. A typical manufacturing facility that employs 100 people actually supports 158 jobs, 100 directly, and another 58 through employment in suppliers. This is why the states compete so vigorously to attract manufacturing.

A new study by MAPI demonstrates that every new manufacturing job supports 3.6 jobs in other sectors. That would be 32 percent of all employment.

In the more advanced sectors, such as electronic computer manufacturing, the multiplier can be as high as 16 to one, meaning every manufacturing job supports 15 other jobs.

Perhaps even more importantly, manufacturing remains the seedbed of American creativity. It is where new ideas and products are developed and refined. It accounts for the lion's share of R&D and patents.

I believe the future of our country depends on economic growth and that manufacturing, today as always, is our primary engine of economic growth. With that as my guide, permit me to share with you a checklist of 10 priorities that I believe our new president, whoever it is, should focus upon.

Number One would be the understanding I just explained – that manufacturing remains the muscle of our economy. With only 4 percent of the world’s population, we still account for 21 percent of world manufacturing production. We are a dynamic manufacturing country – boosted by the blending of manufacturing and services -- and our policies should reflect that reality, and seek to build on it.

Number Two – we can give manufacturing a boost with tax incentives to encourage greater capital investments and more spending on research and development by the private sector, along with more government support for R&D in the public sector.

The R&D tax credit has always been a political football, allowed to expire frequently, and it is much smaller than those offered by our main competitors. We need to lure more funding into R&D.

Number Three – we should make a broad-based commitment to cutting edge technologies across the board. The Obama Administration has created nine “manufacturing hubs” that are laboratories for developing new technologies and processes. The next administration should build upon this excellent initiative.

Also, we should fund the National Manufacturing Universities Act that will single out specific institutions of higher learning as manufacturing schools.

They will encourage public-private partnerships designed to strengthen the connection between scientific research and technology commercialization to “bridge the gap” between transforming technologies developed in universities and federal laboratories into commercialized products and more efficient production processes.

Number Four -- in recent years, we have seen a disturbing decline in new entrepreneurs. The eagerness of our citizens to create new products and businesses has always been a key strength of our economy. We cannot afford to lose it. We need to encourage entrepreneurship at all levels. A major component of this effort must be substantive reform of regulations at all levels – federal, state and local.

It is the nature of bureaucracy to create new rules and paperwork requirements, but they never get around to weeding out the old ones, or resolving the contradictions between rules that drive small business people crazy. We have created a regulatory maze that serves no one well. We need to take a chain saw to it at all levels.

Number Five is re-shoring. One of the more encouraging signs on the horizon is a growing trend of re-shoring as more and more businesses bring operations back from overseas. Over the past three years, at least 80,000 manufacturing jobs have come back.

There are many reasons for this. A big one is our advantage in technology. We are simply more productive and efficient than most of our competitors.

Also, as products become more complex and consumers more demanding, it is more convenient to have production here at home where you can control it and be more responsive to customers. Our government can do a lot to encourage this trend with tax incentives and regulatory reform.

I believe the re-shoring trend augurs well for your industry in which products are carefully designed for the unique challenges of our domestic market.

Number Six – we must never forget that the key ingredient in all of our efforts to boost the economy is the oldest one of all – people power. Our government can also do a lot to stoke people power. We need to undertake a comprehensive review of our entire education and training infrastructure with an eye for preparing people for real world jobs, and especially for careers in modern manufacturing.

Our national obsession with four-year academic degrees has become a drag on our economy and a blind alley for many young people. Those degrees cost too much and too many people who earn them end up driving taxis and tending bar.

Many bright young people are mechanically inclined and like to work with their hands. We need to forge specific career paths for them to follow into the trades or modern manufacturing. Apprenticeship programs in which young people earn while they learn are the most effective way to help them become productive and self-sufficient.

Number Seven is international trade. The current political campaign is producing a lot of nonsense and fear-mongering about trade that serves no one well. We are one of the world's three greatest exporting nations. We have to be. Only 5 percent of the world's consumers are in this country. We have to sell abroad and free trade agreements are the best way to make that happen. We have many trade agreements in operation, and every last one of them has brought new markets and jobs.

I will concede one serious criticism of trade agreements. When other countries cheat, our government has been slow to respond. Our state department is more concerned with political alliances than commerce. All too often it sells out business in order to promote political and military alliances.

I would suggest to the new president, whoever it is, that we do need to make trade a priority and come down hard on the cheaters. But at the same time we should gladly embrace the Trans-Pacific Trade Partnership. We have nothing to fear from trade, and everything to gain.

Number Eight – both candidates are calling for tax cuts, which is standard political stuff. Everyone is for tax cuts. What’s not to like about tax cuts? I would suggest some positive, creative tax cuts such as incentives to encourage private business to create profit-sharing plans in which all employees share in company profits. This will increase consumer demand and employee loyalty, and help reduce the growing economic divide between those at the top and those at the bottom.

There are mounds of studies and empirical data to confirm what logic and experience dictate – that the businesses, government agencies and non-profit organizations that encourage and reward active employee contributions are among the most productive. The ultimate goal is to foster workplaces where employees have a team spirit, are working actively to help their employer become more competitive, who energetically accept new ideas and offer their own suggestions for improving productivity.

Number Nine – the budget deficit. One of the biggest issues and challenges facing our nation is the runaway federal budget deficit that threatens to swamp our nation’s future. We are spending far beyond our means, primarily because of the aging population and the entitlement programs that serve them. It is a very difficult and touchy subject and both candidates seem content to avoid it entirely. You can call it sweeping under the rug or kicking the can down the road, but whatever you call it – it amounts to political malpractice.

The road to fiscal prudence is clear. In 2010, President Obama created a special bi-partisan commission to consider the growing debt and make recommendations. It was led by former Senator Alan Simpson, a Republican, and former White House Chief of Staff Erskine Bowles, a Democrat.

That panel mapped out a sensible course of actions that would have put our country on a clear path to fiscal solvency. All the experts agreed it was a sound plan. Neither the Congress nor the White House would touch it with a 10-foot pole. So nothing was done.

But I am not a budget hawk, or at least I am not obsessed with it. Rather I am a manufacturing guy and I believe that our economic future, and thus the future of our nation, depends to a large extent on our investment in capital for our manufacturing base.

Which leads me to Number Ten. Let me conclude my remarks on a high note. There is one very big item on the nation's agenda that both presidential candidates embrace – infrastructure. A half century ago we were far and away the most modern, efficient place to do business. But we have let that beautiful business environment go to seed.

We face an awesome job upgrading our infrastructure – our highways, bridges, railroads, waterways, ports, air service ports – the whole nine yards.

It costs a lot of money to keep these things up to speed. Politicians find it easier to spend funds on the here and now and postpone long term investments like upgrades to roads and bridges.

But the postponing has run its course. We have to undertake a major nationwide upgrade campaign and now, with money so cheap, is the time to do it.

The Congress will put up a fight of course. The House in particular will resist any new spending that isn't paid for. But infrastructure spending is not money wasted. It is a solid investment in the future that will pay dividends for many years to come. This infrastructure expansion will mean more demand for your products.

Whether or not this political promise will be kept is anyone's guess. But I am optimistic. There is an old saying that Congress will eventually do the right thing – after it has exhausted all other alternatives.

As for the Presidential campaign, anything is possible but I do believe Clinton will win, for two reasons.

First, because of Trump's outrageous statements on everything from personal attacks to attacks on ethnic groups to belligerent statements on foreign affairs and his irresponsible fiscal program. He has instigated thousands of lawsuits. No sensible person does that. This seems to be part and parcel of his personality, but a President cannot run around suing people.

I know that for many people Trump's antics are the source of his charm, but there is a reason professional politicians steer away from that kind of extremism. It gets headlines, but it alienates the political middle, which is where the votes are.

The second and more prosaic reason is the structural of the Electoral College which gives Clinton and the Democrats a decided advantage.

That said, this is a more interesting campaign and I am sure all of us will be sitting up late election night watching the returns.

Thank you.