OVERVIEW

The United States produces more goods and services than any other country in the world. While this country remains a global leader in manufacturing, other nations are gaining ground. Our competitors are vying to knock us from our mantle of economic leadership, and they are actively promoting policies to strengthen manufacturing on their shores.

Yet the story of manufacturing in the United States is not about what other countries are doing to overtake us. It’s about what we are doing to ourselves. On a level playing field, no nation can compete with us, but over the past decades, the United States has erected barriers to competitiveness through policies that stifle economic growth and discourage job creation.

Among manufacturers’ challenges:
- It is 20 percent more expensive to manufacture in the United States than it is among our major trading partners, excluding the cost of labor.
- The United States has the highest statutory and effective corporate tax rate in the industrialized world.
- The regulatory burden on manufacturers is equivalent to an 11 percent tax on their businesses.
- The United States is lagging behind its competitors by not pursuing new free trade agreement opportunities.
- U.S. students lag behind their global counterparts in science and math skills.

If the United States continues to burden job creators with uncompetitive policies, this country risks losing its manufacturing edge. An effective competitiveness policy would redress these imbalances and seize manufacturers’ ability to drive growth and job creation.
U.S. manufacturers face a 20% structural cost burden compared to companies in our major trading partners.
The United States remains the world’s leading manufacturing nation, but other nations are making significant gains. Manufacturers have an array of choices when deciding where to locate and invest. No longer can the United States take its economic position for granted. The U.S. must do more to improve its competitive standing in the global marketplace.

Since 2003, the Manufacturers Alliance for Productivity and Innovation (MAPI) and The Manufacturing Institute have tracked the burden of structural costs of manufacturers in the U.S. relative to their counterparts in our nine largest trading partners. Structural costs in 2011 were 20 percent higher than for our major competitors, up from 17.6 percent in 2008. That cost differential excludes the cost of labor.

**FIGURE 1: MANUFACTURING IN THE U.S. FACES A STRUCTURAL COST DISADVANTAGE**

Source(s): MAPI
Corporate tax liability, employee benefits, tort litigation, regulatory compliance and energy contribute to the cost differential confronting manufacturers in the United States. Of these, energy is a lone bright spot. Manufacturers in the United States currently enjoy an advantage over their counterparts in terms of energy costs—a phenomenon driven largely by the abundance of natural gas. Aggressive regulation, however, threatens this competitive advantage for the United States.
Corporate taxes, regulation, employee benefits and tort costs are a burden on U.S. manufacturing. Over the last decade, employer costs for employee health care increased 83 percent while sales prices for manufactured goods only rose 2.1 percent annually. Tort costs continue to impose significant costs on our economy. Tort claims and litigation cost more than $250 billion each year, roughly 2 percent of gross domestic product.

The single largest contributor to the structural cost disadvantage is corporate tax liability. Other nations have aggressively cut their tax rates, and, as a result, the U.S. currently has the highest corporate tax rate among industrialized nations. While many believe that generous depreciation allowances, deductions and exclusions make the U.S. burden less severe than statutory rates would suggest, careful analysis of the marginal effective tax rate on capital follows roughly the same pattern as statutory rates, with the U.S. at the top.

**FIGURE 2: THE U.S. DOES NOT KEEP PACE WITH FALLING CORPORATE TAX RATES**

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>40.0</td>
<td>40.0</td>
<td>34.6</td>
</tr>
<tr>
<td>Japan</td>
<td>57.1</td>
<td>38.0</td>
<td>29.5</td>
</tr>
<tr>
<td>France</td>
<td>36.6</td>
<td>33.3</td>
<td>34.1</td>
</tr>
<tr>
<td>Mexico</td>
<td>34.0</td>
<td>30.0</td>
<td>17.5</td>
</tr>
<tr>
<td>Germany</td>
<td>57.4</td>
<td>29.4</td>
<td>23.8</td>
</tr>
<tr>
<td>Canada</td>
<td>44.6</td>
<td>28.0</td>
<td>20.5</td>
</tr>
<tr>
<td>China</td>
<td>33.0</td>
<td>25.0</td>
<td>16.6</td>
</tr>
<tr>
<td>Korea</td>
<td>30.8</td>
<td>24.2</td>
<td>28.5</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>31.0</td>
<td>24.0</td>
<td>27.9</td>
</tr>
<tr>
<td>Taiwan</td>
<td>25.0</td>
<td>17.0</td>
<td>10.9</td>
</tr>
</tbody>
</table>

Source(s): MAPI Costs Study and Organisation for Economic Co-operation and Development and country budget documents

Note: Rates include both national and subnational corporate taxes where they exist
Regulatory costs also add to the cost disadvantage, and more than any other sector, manufacturers bear the highest share of the cost of compliance. Manufacturers spend an estimated $180.5 billion complying with regulations annually, an amount that is equivalent to an 11 percent tax on manufacturers’ final sales.

FIGURE 3: DESPITE RHETORIC, REGULATIONS ARE AS BURDENSOME AS EVER

While there is widespread belief that the United States has a permissive regulatory regime compared to its competitors, particularly those in Western Europe, the contrary is true. The U.S., in fact, imposes a costlier burden on manufacturers. In 2007, manufacturers in the U.S. spent an estimated 6.2 percent of their final sales complying with air and water emissions standards compared to 6 percent in France and Germany and 3.5 percent in the United Kingdom.
In addition to taking steps to make the United States a better place to invest and do business, policymakers must also take steps to make the country a better platform from which to export. Some 95 percent of the world’s consumers live outside the United States, so many manufacturers are looking to these new markets to expand their businesses and create jobs in this country. Today, the United States exports more than $1 trillion of manufactured products to 238 countries. Manufactured goods make up almost half of all U.S. exports.

Manufacturers have yet to tap the full potential of business opportunities abroad. The United States lags behind its competitors in negotiating new free trade agreements. In fact, of the dozens of trade pacts being negotiated around the world, the U.S. is currently party to just one.

Reducing the structural costs of manufacturing and expanding international trade will enhance U.S. competitiveness, but manufacturers in the United States face another challenge: the skills gap. Many manufacturers are unable to fill jobs because they cannot find workers with the skills needed for the modern manufacturing workplace. While effective job training and skills certification programs can help close the skills gap, educational improvements at all levels will better prepare students for fulfilling careers in manufacturing.
A MANUFACTURING RENAISSANCE: FOUR GOALS FOR ECONOMIC GROWTH

Goal One:
The United States will be the best place in the world to manufacture and attract foreign direct investment.

- Embrace an “all-of-the-above” approach to energy production.
- Promote policies that encourage stewardship, drive innovation and recognize the global scope of many environmental issues.
- Ensure that the benefits of regulations justify their costs to manufacturers in the United States.
- Create a national tax climate that enhances the global competitiveness of U.S. manufacturers.
- Modernize and invest in infrastructure to help manufacturers in the United States more efficiently move people, products and ideas.
- Implement common-sense, fair legal reform.
- Reduce health care costs for both patients and providers.
**Goal Two:**
The United States will expand access to global markets to enable manufacturers to reach the 95 percent of consumers who live outside our borders.

- Promote a global trade policy that opens international markets and reduces regulatory and tariff barriers.
- Modernize the United States’ outdated export control system to strengthen national security, promote American competitiveness and encourage exports.
- Boost exports through improved export promotion programs and credit assistance for both small and large manufacturers.

**Goal Three:**
Manufacturers in the United States will have the workforce that the 21st-century economy requires.

- Address regulations and mandates that undermine employer flexibility and ultimately discourage the hiring of new employees.
- Develop a more productive workforce and encourage innovation through education reforms and improvements.
- Attract the best and brightest to the United States.

**Goal Four:**
Manufacturers in the United States will be the world’s leading innovators.

- Strengthen and make permanent the R&D tax credit.
- Support federal research agencies and public- and private-sector research.
- Recognize Intellectual Property as the basis of America’s innovative economy.
Modern manufacturing is complex and increasingly requires a workforce adept in science, technology, engineering and mathematics (STEM). While there is growing recognition of the importance of and need to improve STEM education initiatives, there currently is a disturbing gap in the math and science performance of students in the U.S. as compared with our key trade partners and competitors.

**FIGURE 4: U.S. STUDENTS ARE NOT COMPETITIVE IN MATH AND SCIENCE SKILLS**

Despite these self-imposed obstacles to growth, manufacturing in the United States has proved resilient. Taken alone, the manufacturing sector would rank as the world’s tenth largest economy, ahead of nations such as India, Canada and Korea. Manufacturing already contributes $1.8 trillion to the American economy each year, but it has the potential to do far more for the economy.
Manufacturing employees’ average compensation is 19% higher than workers in non-manufacturing industries.
Manufacturing drives economic growth and job creation, so its vitality is essential to America’s economic future. Unfortunately, too many policies in this country hinder manufacturing growth and discourage investment. Lawmakers must make manufacturing a priority if the United States is to maintain its mantle of economic leadership for years to come.

A strong manufacturing sector means a strong economy. That’s because manufacturing has an outsized multiplier effect, the largest of any other sector. Every dollar in final sales of manufactured products supports $1.34 in output from other sectors. Manufacturing has a powerful and positive impact on economic development. As the demand for manufacturing grows, it in turn spurs the creation of jobs, investments and innovations.

**FIGURE 5: MANUFACTURING HAS THE STRONGEST MULTIPLIER EFFECT**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Multiplier Effect (x)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>$1.34</td>
</tr>
<tr>
<td>Agriculture, forestry, fishing, and hunting</td>
<td>$0.90</td>
</tr>
<tr>
<td>Construction</td>
<td>$0.63</td>
</tr>
<tr>
<td>Transportation and warehousing</td>
<td>$0.60</td>
</tr>
<tr>
<td>Information</td>
<td>$0.60</td>
</tr>
<tr>
<td>Education svcs., healthcare, and social assistance</td>
<td>$0.57</td>
</tr>
<tr>
<td>Finance, insurance, real estate, rental, and leasing</td>
<td>$0.56</td>
</tr>
<tr>
<td>Wholesale trade</td>
<td>$0.53</td>
</tr>
<tr>
<td>Professional and business services</td>
<td>$0.53</td>
</tr>
<tr>
<td>Retail trade</td>
<td>$0.34</td>
</tr>
</tbody>
</table>

Source(s): U.S. Bureau of Economic Analysis, Annual Input-Output Tables
Manufacturing’s strong multiplier effect creates jobs, and manufacturing jobs are among the best in the nation. Today’s manufacturing employees earn higher wages and receive more generous benefits than other working Americans. In 2011, manufacturing employers paid employees an average of $78,991 in salary and benefits, while employees at non-manufacturing companies were paid an average of $66,584 a year in salary and benefits—meaning that there is a 19 percent premium for working in manufacturing.

Manufacturers also provide a higher level of benefits for their workers than do other industries, including for paid leave, supplemental pay and insurance. The sector, for example, is the leader among private sector employers in offering health benefits to workers. Seventy-eight percent of manufacturers offer employee-sponsored health plans, compared to just 54 percent in other industries.

**FIGURE 6: MANUFACTURING PAYS HIGHER AVERAGE COMPENSATION**

Source(s): Left – U.S. Bureau of Labor Statistics
Right – U.S. Bureau of Economic Analysis
The multiplier effect also contributes to the dynamism of our national economy. Small businesses drive this vitality. Entrepreneurs and start-ups add value to our economy and make innovations that change the way we live and do business.

Most manufacturing firms are small businesses. They employ no more than four people. The largest companies—those employing more than 500 people—represent the smallest cohort of manufacturers.

**FIGURE 7: SMALL COMPANIES DOMINATE THE INDUSTRIAL LANDSCAPE**

![Bar chart showing the distribution of manufacturing firms by employee count in 2009](chart.png)

Source(s): U.S. Census Bureau and MAPI

Manufacturing does more than generate wealth. It supports millions of families and raises the standard of living for all Americans. At a fundamental level, manufacturing improves lives.
Manufacturing drives productivity growth, and higher productivity means that we can produce more with our labor and capital. It is the basis for higher wages and living standards. Manufacturing productivity growth is among the strongest of all sectors of our economy. Between 1998 and 2011, it grew at an average annual rate of 3.5 percent. In contrast, service sector productivity lagged far behind, growing by just 1.4 percent.

**FIGURE 8: MANUFACTURING DRIVES PRODUCTIVITY GROWTH**

Source(s): U.S. Bureau of Economic Analysis and MAPI
Manufacturing means jobs. It employs nearly 12 million men and women and supports almost 5 million more jobs. Manufacturing also means prosperity for future generations. It drives innovation and fuels productivity growth, which increases our standard of living.

Despite the overwhelming positive impact of manufacturing on American families and the economy, the sector faces challenges. Our nation has created barriers to competitiveness and made it harder to manufacture in the United States. For manufacturing to achieve its potential, the United States must adopt pro-growth policies that allow manufacturers to do what they do best: lead the economy and create jobs.