

# LEVEL THE PLAYING FIELD FOR AMERICAN MANUFACTURING

## SUPPORT FOR GROWTH, JOB CREATION, AND CAREER DEVELOPMENT

Widely shared middle-class prosperity has made the United States the most hopeful and dynamic country on earth and is a foundation of strong democracy. Yet today, America's middle class is in trouble: the traditional routes into the middle class have become more difficult to travel and security has eroded for those already in the middle class. Major economic and policy changes over the past three decades have widened economic inequality and reduced mobility in ways that go far beyond the impact of the recent recession. Too many people who play by the rules and do everything right find that they cannot climb into the middle class—or stay there. To meet this challenge, Millions to the Middle offers dramatic public policy initiatives to rebuild and grow the nation's middle class.

### POLICY IN FOCUS

#### LEVEL THE PLAYING FIELD FOR AMERICAN MANUFACTURING

Strengthen existing Buy America requirements for investments in highway, bridge, public transit, and rail; end wasteful tax breaks that encourage offshoring, and affirm Trade Adjustment Assistance, Unemployment Insurance, and SNAP benefits for workers affected by exposure to international trade.

We aim to accomplish two broad interrelated goals: to ensure that all Americans have a chance to move into the middle class and, second, to ensure greater security for those in the middle class. The 14 policies we offer are rooted in mainstream American values and able to command strong public support over the long term. Together, they go beyond the confines of the current policy debates and are of sufficient scale to firmly establish a middle-class America.

Our policy agenda is based on the three broad pillars of middle-class opportunity and security: investments in human capital and education; support for growth, job creation, and career development; and helping Americans build assets. This policy is part of the **Support for Growth, Job Creation, and Career Development**.

# POLICY: LEVEL THE PLAYING FIELD FOR AMERICAN MANUFACTURING

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Support the growth of middle-income manufacturing jobs by ending tax breaks that encourage off-shoring, strengthening Buy American provisions, and improving the safety net for workers impacted by trade.

## POLICY RATIONALE:

The manufacturing sector once offered a large supply of stable, middle-class jobs to American workers. Yet middle-income manufacturing jobs have been disappearing from the United States for the past 30 years. While technological innovation has played a much-recognized role in the erosion of the nation's manufacturing base, policy failures also contributed to the disappearance of industrial jobs. Leveling the playing field for domestic manufacturing will ensure that the U.S. can compete on a global scale for the decent-paying jobs that will help to support the next generation of middle-class Americans.

From 1980 to 2005, low-skill jobs and high-skill jobs alike grew by nearly 30 percent, while the share of employment represented by middle-skill, middle-wage jobs dropped by nearly 12 percent.<sup>1</sup> To put this story another way, the U.S. labor market has changed qualitatively over the last 30 years, marking a virtual disappearance of the jobs in sales, office administration, production, and operations that built the middle class in the mid-20th century. In exchange, there has been a rapid rise in low-skill positions in protective services, personal care, and maintenance, along with a spike in the employment of high-skill managerial and professional positions. As the labor market has polarized in this manner, the middle class has shrunk considerably.

There are two sets of possible responses to the disappearance of middle-skill, middle-wage jobs. First, as we have already stated, it is crucial to improve the pay and benefits offered for low-skill jobs: to this end, we call for raising the minimum wage and strengthening the power of Americans to collectively bargain for higher wages by forming a union. At the same time, we have called for aggressive investment in job training and human development more broadly, which will ensure that every American who works hard and plays by the rules will have the chance to develop the skills required for higher-paying positions.

But these interventions will not, by themselves, protect Americans from the economic vulnerability created by exposure to cheap overseas products. While many economists hold to the traditional theory that increased trade invariably generates greater gains across the board, recent analyses reveal a much different picture – indeed, ac

## OPINION SNAPSHOT

- 63 percent of likely voters agree “manufacturing is the single most important part of the American economy and we need a manufacturing base here if this country and our children are to thrive in the future.”<sup>10</sup>
- 86 percent of likely voters say they would favor “a national manufacturing strategy to make sure that economic, tax, labor and trade policies in this country work together to help support manufacturing in the United States.” 68 percent strongly favor such a proposal.<sup>10</sup>

According to David Autor of MIT, between one-third and two-thirds of the gains from international trade are wiped out by the subsequent increase in unemployment, wage depression, and hikes in public safety net payments.<sup>2</sup> The facts could not be clearer: a \$1,000 per worker increase in import exposure in a single locality results in a 0.77 percent reduction in the employment to population ratio (about three quarters of which is due to losses in manufacturing). This shock, moreover, is absorbed disproportionately by lower-skill workers, whose employment to population ratio actually declines by 1.1 percent, while that of higher-skill workers declines by 0.42 percent.

Given the subsequent rise in payments of disability and Social Security in localities exposed to imports from overseas, it is crucial to sustain not only Trade Adjustment Assistance for workers affected by overseas imports (manufacturing and service sectors alike) but also ensure that unemployment insurance and SNAP benefits remain available for the long-term jobless.<sup>3</sup> These safety net programs have a proven record of preventing middle class families affected by international trade, and economic dislocation more generally, from sliding into poverty.<sup>4</sup>

## **POLICY DESIGN**

- Strengthen Buy American rules based on the *“Invest in American Jobs Act of 2011” (H.R. 3533)*.<sup>8</sup>
  - Strengthen existing Buy America requirements for investments in highway, bridge, public transit, rail, and aviation infrastructure and equipment to ensure that all of the steel, iron, and manufactured goods used in these projects are produced in the United States.
  - Apply Buy America requirements to other transportation and infrastructure investment, including rail infrastructure grants, loans, and loan guarantees, Clean Water State Revolving Fund grants, and Economic Development Administration (EDA) grants.
  - Require Federal agencies to justify any proposed waiver of the Buy America requirements and ensure that the American public has notice of and an opportunity to comment on any proposed waiver prior to it taking effect.
- End wasteful tax breaks that encourage offshoring.<sup>9</sup>
  - Remove deductions offered in the tax code for transporting operations to overseas facilities.
  - End tax breaks that allow companies to shift profits earned from American-made patents overseas.
- Affirm Trade Adjustment Assistance, Unemployment Insurance, and SNAP Benefits for Workers Affected by Exposure to International Trade.
  - Ensure that social safety net programs like SNAP and Unemployment Insurance are understood as important features of U.S. trade policy and are enhanced, along with Trade Adjustment Assistance, as a condition of any new free trade deal.

While it is important to strengthen the safety net for Americans harmed by imports from low-wage countries, it is also possible to work more proactively to limit the damage caused by international trade. The most logical step here is to level the playing field for domestic manufacturing. Despite the odds, the American manufacturing sector has experienced a modest rebound as of late: over the past two years, as many as 330,000 manufacturing jobs have been created in the United States. Of course, this comes after 7.5 million manufacturing positions have been lost over the last 30 years, but there is reason to believe that smart policy can strengthen domestic industry and offer the middle class new options for middle-skill, middle-wage jobs.<sup>5</sup>

The U.S. tax code offers tax breaks that do not serve the interests of working Americans, allowing companies to deduct from their taxable income the cost of moving operations overseas – this, along with tax loopholes that allow U.S. companies to shelter profits overseas from intangible property such as patents, make it unnecessarily difficult for domestic manufacturing to thrive. Eliminating tax exemptions for U.S. companies to shelter profits on intangible property overseas would alone save the U.S. \$23 billion and would also ensure that companies do not incur wasteful costs for choosing to remain at home and employ American workers.

Lastly, the U.S. government has the opportunity to take the lead by encouraging consumers to purchase domestic products by strengthening already existing Buy American laws and by toughening reporting requirements to ensure that public tax dollars are spent on American-made goods, where possible. A fully-robust Buy America provision would increase manufacturing jobs by as much as 33 percent;<sup>6</sup> moreover, recent polling reveals that fully 91 percent of voters support restrictions on public taxpayer dollars being spent strictly on domestic-produced goods – indeed, 89 percent of self-identified Tea Party members support this provision along with 94 percent of Democrats.<sup>7</sup>

In order to rebuild the American middle class, it will be necessary to create the conditions for middle-skill, middle-wage jobs to thrive again – this can be achieved in part by leveling the playing field for the domestic manufacturing industry that once provided these jobs in abundance.

## ENDNOTES

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