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END OF SESSION REVIEW ON THE STATE OF U.S. MANUFACTURING

ROUNDTABLE DISCUSSION

BEFORE THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES7

ONE HUNDRED EIGHTH CONGRESS

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END OF SESSION REVIEW ON THE STATE OF U.S. MANUFACTURING

WEDNESDAY, OCTOBER 29, 2003

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, D.C.

The Committee met, pursuant to call, at 2:01 p.m. in Room 2360, Rayburn House Office Building, Hon. Donald Manzullo presiding.

Present: Representatives Manzullo, Millender-McDonald, Majette, Shuster, Schrock, Ballance, Chocola, Kelly.

Chairman MANZULLO. Good afternoon. We are going to begin the hearing. Will everyone go around the table and introduce themselves?

Ms. BROGAN. Good afternoon. My name is Molly Brogan, Government Affairs Manager, National Small Business Association.

Mr. CARR. I am Kevin Carr, Director, National Institute of Standards and Technology Manufacturing Extension Program.

Ms. DARIEN. I am Kristie Darien, Director of Government Affairs, National Association for the Self-Employed.

Mr. FREEDENBERG. I am Paul Freedenberg, Vice-President, Government Relations, Association for Manufacturing Technology.

Mr. GASKIN. I am Bill Gaskin with Precision Metalforming Association. We are the trade association of metal stamping, fabricating, roll forming, spinning companies that make parts for virtually every manufactured product. It is a $41 billion industry. We have about 1,200 member companies.

Mr. HOWELL. My name is Tom Howell. I am a lawyer with the firm of Dewey Ballantine, LLP. We represent a range of American manufacturing industries.

Mr. JARRETT. I am Jim Jarrett. I am Vice-President of Government Affairs for Intel Corporation. We are based in Santa Clara, California. We are the world's largest manufacturer of semiconductor chips for computers and network equipment and cell phones, et cetera.

Ms. KOPENHAVER. Good afternoon. I am Janet Kopenhaver. I am Director of Government Affairs for the American Wire Producers Association, which as the name connotes, we represent manufacturers of wire and wire products and our Association represents over 85 percent of the domestic industry.

Mr. VARGO. I am Frank Vargo with the National Association of Manufacturers, representing 14,000 American manufacturers, large and small.

Mr. WESSNER. Hi. I am Chuck Wessner. I work with the National Academy of Sciences and will be providing some information from our reports. I underline that my remarks are my own.

Mr. WELLHAM. Good afternoon. I am Mike Wellham. I am the Senior Vice-President with RTI International Metals. We are located in Niles, Ohio and we are a titanium producer.

Mr. CALAMARO. Mr. Chairman, hi. I am Ray Calamaro I am outside counsel to RTI, here accompanying Mr. Wellham.

Chairman MANZULLO. Let us see. Kevin, you came in late. Okay.

Mr. CARR. Hi. I am Kevin Carr. I am the Director of the Manufacturing Extension Partnership at the National Institute of Standards and Technology, which is part of the Department of Commerce.

Chairman MANZULLO. Thank you. You have to talk into the mike.

Ms. DARIEN. Hi. I am Kristie Darien. I am the Director of Government Affairs for the National Association for the Self-Employed and we represent the self-employed and micro businesses with ten or less employees. Thank you.

Chairman MANZULLO. That is great. Did we get everybody? Okay. Good afternoon and welcome to this roundtable discussion looking at the current state of U.S. manufacturing. A special welcome to those of you who have come a long distance today to join us.

We all know why we are here. It is because despite our best efforts, manufacturing in the United States is in rough shape. Unless we do something about it, the effects will be catastrophic.

You can ask any one of the 2.8 million Americans who have lost their manufacturing jobs over the past 38 months. We lost three factories in one week in Rockford, 1,200 people. The jobs are gone. That is just in one week.

Our unemployment is officially 11.1 before the layoffs. It is probably over 12 percent. Effectively it is 15, 16, 17 percent, because the people have been off the unemployment roles because they have been unemployed for such tremendous periods of time.

The problem goes deep. It is crucial this Congress fosters an environment that keeps Americans working. Our continued prosperity depends on keeping Americans at the job.

We have a continuous effort with the Defense Department that turns a deaf ear to the pleas of our nation's manufacturers. More and more contracts go to foreign companies to the exclusion of U.S. companies. It all started with the infamous four and a half hour hearing on the black berets, where three Generals came and testified and I carry that black beret in my briefcase. It is made in China.

The other 614,999 are in a warehouse in Mechanisburg, Pennsylvania, because I decided that those berets made in China should not be distributed to our men and women in uniform, because what good does this serve their morale when they take off that beret and find out that it is made in China?

Anyway, we have been having a very interesting time. We have had probably 30, 35 hearings on manufacturing. The only Committee in Congress that is devoted to trying to figure out why we

are having a destruction of our manufacturing base. We talk about manipulation to currency.

Frank, a year and a half ago, we held the first hearing in Congress on the RMB, and today there is a bill going on that I am probably going to have to miss Congressman Manzullo's Sense of Congress resolution urging our administration to use every tool possible in order to keep the currency from being manipulated.

I just got back from the Milan, Italy international machine tool show. I was there two days and absolutely totally remarkable what is going on in European countries compared to American countries.

We met with the Lombardi Society. It is about 6,200 corporations and manufacturing in Italy is mostly medium and small businesses. There is one town of 25,000 people that has 2,000 manufacturing jobs. That is the intensity of it.

Because these are small and medium corporations, the people who run them have their families in them and they are more concerned about long-term planning, the jobs being solid and taking care of their children and grandchildren than they are about the value of the stock.

It is very interesting to see how that culture takes a look at manufacturing and that is one of the reasons we believe that they have succeeded in keeping these corporations so profitable.

We have a lot of things to talk about and I am just going to throw it up. Whoever wants to talk about any topic first, just raise your hand and you will choose the first topic. Who will be the first to go? Good, then I will have to say then who will be the second and that gets a hand up. Mike, go ahead and put the mike close to your mouth so we can hear you. Then if you want to talk for a couple of minutes and anybody wants to join in, just raise your hands. It is very, very informal.

Before you do that, we have two members here, Congressman Green and Congressman Ballance. Did either of you have any opening statement that you would want to make? You are all set.

Congresswoman Sue Kelly just joined us. Sue, did you have any opening statements you want to make? Okay. Thank you for coming.

Mr. WELLHAM. Thank you, Mr. Chairman. The comments I would like to make today are tied to the procurement issues of the Department of Defense. I would like to discuss two issues as they relate to the titanium industry in general The first one being the Berry Amendment or the Specialty Metals Clause and the second one is the preferential trade treatment provided to foreign countries.

Chairman MANZULLO. Mike, you need to pull it closer to your mouth.

Mr. WELLHAM. Preferential trade treatment provided to our foreign competitors. In regards to the Berry Amendment, there have been waivers granted that have adversely affected the domestic titanium industry and for those of you that may not be aware of what the Berry Amendment is, it simply says that specialty melted products that are used in defense applications must be procured from U.S. sources and must be melted in the United States.

Today there are efforts by the Department of Defense and others to undermine the Berry Amendment. The Berry Amendment was

originally adopted to ensure the continued strength of the U.S. Defense Industrial Base and compliance with the Berry Amendment is critical for the survival of the U.S. titanium industry.

In addition to the critical challenges to the Berry Amendment that our industry faces, it is important to note that our trade policy now favors high-tech defense critical jobs in Russia over those in the U.S. through misplaced preference, known as GSP for imports of Russian titanium. There is no reason Russian titanium imports should have this preference over U.S. products.

For both the Berry Amendment and GSP, all the U.S. needs to do is to enforce existing safeguards and disallow inappropriate preferences, but for reasons we cannot understand there seems to be opposition to both.

So Mr. Chairman, I thank you and the Committee again for allowing RTI to participate in this discussion.

Chairman MANZULLO. Okay. Anybody want to comment on that? Yes, Charles.

Mr. WESSNER. I would be grateful, because I think the first speaker has raised a question that has some broader ramifications. There is actually a certain irony, because I think in Clyde Prestowitz's book, in 1986, he pointed out that a gentleman by the name of Frank Vargo, who I think is sitting not far from me, was raising concerns about the trends in American trade balance.

I think it is very important that this session not be considered what some would see as a simple-minded expression of protectionist sentiment. Questions about trade are often characterized in very absolutist terms.

On the one hand, there are right-thinking "free trade" advocates, and on the other hand are wrong-thinking "protectionists". But in reality, trade issues, as you know, are much more complex and that is reflected in the trade negotiation process and the complexity of the trade agreements themselves.

To paraphrase the President's remarks about Saddam just pulling up his weapons and dropping them in the parking lot, if we were just implementing completely free trade, we would not need 1,000-page trade agreements; would we? And we perhaps would not need a large enforcement office, although keep in mind we do not have a large enforcement office?

The challenge of enforcement of trade agreements is something that successive administrations have not been able to get their arms around.

What I have here—and I will not read to you, but I think is worth looking at—is a series of questions raised by the Science Committee, because they are concerned about the long-term impact of their technology policy.

I do not mean to be too outrageous, but I was thinking about the sniper events, the sadness that struck this community a year ago. I work on technology policy, but if you do not have an effective trade policy it is a little bit like saying that someone is shooting the children in your backyard and you go in and you tell your wife we have to have more children.

Actually, your job as the head of a household is to protect your family and the job we have as a nation is to protect firms and pro-

vide them with a competitive environment, but one where they are also protected against predatory practices.

One of the other key points that I would like to make here is that we tend to assume as a nation that we know what the rest of the world should do. We believe in a rules based liberal trading order and that has been very effective for us, but conditions are changing and our ability to maintain a liberal trading regime requires us to be able to maintain the economic leadership that we have had.

Some of the policies, whether it is currency manipulation or desire to get rid of our anti-dumping legislation or discriminatory practices with investment, you can count the ways, all make it harder for us to compete.

Mr. Chairman, my son is a pretty good soccer player. His team won the state championship. And one of the things that he taught me—I used to complain about the refs not being fair. He said, you know Dad, the refs are never fair. The objective is to win.

Now China has understood that concept, and we are still in the back complaining about the refs. I think we need to start off with the idea that there is not some absolutist right or wrong in trade. The question is just how do we win for American citizens in the world economy?

Chairman MANZULLO. Any members want to comment? Anyone else want to comment on that?

Mr. COFFEY. I think that what Dr. Wessner says is absolutely right on target. We are in a situation where I believe most entrepreneurs are in fact interested or have been interested in free trade for a long time, but now they are starting to see economic effects that they do not understand and that the U.S. government cannot explain to them.

And they have always looked at the U.S. government as a partner in their business, because after all it takes as much money out of the business as the owner ever does in taxes of various kinds. What their frustration is, is they do not see the U.S. government standing in their partnership role of protecting their market or trying to make sure that their markets are fair.

That is really the core of the problem. I do not think we are here talking about protectionism. I think we are here talking about a market that is out of balance, that we do not understand why we are having the micro economic effect we are having.

We understand some of the macroeconomic effect, but when you come down to the small and medium sized manufacturer, there is virtually no data to tell you exactly what is going on and how these free trade agreements have in fact impacted the micro economy while you can still have a macro economy that looks like it is growing and doing just fine.

I think that is really the dilemma that we have to address to the administration is: Why don't we have the data? Why don't we understand these impacts and why are we rushing head-long into new free trade agreements when we don't even understand the impact of the ones we have already passed and implemented?

Chairman MANZULLO. We had the assistant of USTR, one of the assistants in our office and asked her if she had any data on the

extent of foreign countries' purchase of U.S. procurement and vice versa. She said that data does not exist.

I said, then why is it that in the new free trade agreements you continue to open up our procurement to foreign countries? She said, well the major corporations say this is good and I said, I can understand that and that may be the case, but with no data how do you forge ahead? Where do you open up our procurement the way it is?

Mr. COFFEY. We cannot even get the government to promise to enforce to buy American provisions that exist.

Chairman MANZULLO. Tell me about it. Right. That goes on constantly. Mark?

Mr. GREEN. Thank you, Mr. Chairman. Something that you have in the materials that you have distributed I think is very important and I think we assume too often that lawmakers here in Washington understand it and that is your references to talking about the value of manufacturing.

We have all seen the recent economic data that indicates that we are perhaps on the front edge of a recovery. It is anemic and it is uneven, but I think we are beginning to see a recovery.

But I don't think we can get our arms around these challenges, if we simply look at number of jobs and unemployment statistics and not go deeper and look at the kinds of jobs that are being lost and the kinds of jobs that are being created.

I do think we need to make sure that we understand the value of manufacturing. I think the public gets it. I think the public instinctively knows that when you lose manufacturing capacity you have lost something beyond simply losing numbers of jobs. It is deeper than that. It goes to the character of our economy. It also I believe has national security implications.

I think we need to keep coming back to that issue of why manufacturing is our focus and why it is so important that it is not simply raw numbers of jobs. It is instead the character of jobs and getting our economic self-sufficiency and what manufacturing jobs mean in terms of spinoffs.

In my home state of Wisconsin, Mr. Chairman like your state and your area in Illinois, we have lost a lot of manufacturing jobs and it is not simply the job loss. It is the manufacturing capacity and the damage to communities. All across my state we have small communities that have grown up around basically one or two manufacturers. They are the dominant part of the community. They are the character of that community and when that company leaves the community it isn't just the tragedy of losing numbers of jobs. It is the change in the character of that community. It is far deeper than that.

I do think we need to keep coming back to this issue of why it is that we care about manufacturing. Mr. Chairman, you and I were in a session not so very long ago where Mr. Greenspan spoke and was talking about jobs and I notice you are nodding your head. As I recall, your dander was up on that day.

Chairman MANZULLO. That happens once in awhile.

Mr. GREEN. And the reason I recall that is because the reference that the Chairman made, Chairman Greenspan, to how we should evaluate trade agreements and economic policy and paraphrasing

him, anything that creates value to the economy we should support.

It wasn't his opinion necessarily, but he was saying that there is a good debate going on right now as to whether or not we should be looking at manufacturing especially and that maybe we should just be looking at whether or not something adds jobs or not. Both you and I disagreed with the Chairman quite strongly.

I do think we need to keep coming back to that and talking about why manufacturing should be a national priority, because although the public gets it, I am not always sure that a lot of folks out here get it. I think in their policies, our policies we are oftentimes shortsighted. We do not get to that distinction.

Chairman MANZULLO. I had asked Mr. Greenspan the question as to whether or not he agreed with the NAM statement that if we continued to lose 50 to 60,000 manufacturing jobs each month, this will affect our critical mass and the United States will have to get used to a lower standard of living. Mrs. Kelly was chairing that remarkable banking committee.

He said, well what we lose in manufacturing jobs we create in a high value white collar jobs and I said, well we are losing those jobs rapidly also. He says, well this continues, it may be a problem. I think he threw in the word systemic in there.

That is a good segueway. Frank, go ahead. I wanted to ask Jim a question, but let me raise that up and then you can make the comment.

Your boss, Andy Grove, made the most astounding statement about three weeks ago, when he said that Congress has to adopt a policy, a national policy and he was vague on that, because he is not quite sure what the policy should be or who should establish it, but he is very much concerned that with our tremendous loss of high-value, white-collar, technical jobs going overseas that the United States is going to be in deep, deep trouble and we are trying to get him to come and testify.

He is the first CEO that has come out and then he talked about the tough decision that he has to make as to his fiduciary obligation to increase the value of shares and he weighs that against laying off the human beings in America that have made the company great. You could just see the agony in his words.

I just commend him so much and Intel is in the same boat on that. Did you want to comment on that and then we can go to Frank? You do not have to, but I just wanted to commend your boss for making that statement.

Mr. JARRETT. Yes. Andy's point was to try and really awaken people to the fact that if we look at the software industry, you can see the beginning of trends of market segment share loss, just like we saw them in the 1980s in the semiconductor industry and earlier in other industries.

His view is, there is still time to arrest this process, just as we were able to arrest it in the semiconductor industry and his real focus is to urge the government to recognize that the world has changed in a very substantial way.

If you go back to the early 1980s, for example, China, India, Russia, they were not players in high technology. They were inward looking countries at that point. Today, those three countries, two

and a half billion people all together, are very eager, committed players in high technology.

So the world has become a much more competitive place now than it was 20 years ago for high technology and our point is that in addition to looking at kind of a number of policies of the government, we also need to be looking at what is the government doing fundamentally to urge and increase the competitiveness of American businesses, large and small?

Our position is to really take a look at things that can be done, like looking at our tax laws, looking at R&D tax credits. They are really helping to stimulate and incentivize corporations to invest in research and development so that those new products that are going to come out of that pipeline and create the new jobs are really being urged.

Looking at tax laws, looking at the government's financing of research and development in basic research and development. There has been a very nice tandem that has always existed in the United States where the government shoulders most of the burden for funding basic research at the universities, at the national labs, at the research institutes in America and the American corporations shoulder most of the burden for applied research and development.

In recent years, that has not been growing as rapidly as it should, the basic research funding particularly in the physical sciences that are really behind the advances that have taken place in things like physics and chemistry and other areas.

Looking at those kinds of things and then also looking at something very, very fundamental, looking at the quality of our K through 12 education system, which particularly in the math and science area, you know our students just are not keeping up. They are not competing and people like Intel we need those people for the 21st century jobs to be very competent in math and science.

Those are not short-term things. They are long-term, systemic kinds of actions that need to be taken, but we think it is important and we think it is something that the government can do that will make a difference.

Chairman MANZULLO. Let us go to Frank. I am sorry. Mrs. Kelly.

Ms. KELLY. I simply wanted to ask a question of all of you and perhaps you have already discussed this before I came in. Absent changes in the tax laws, which are more difficult to do, it seems to me that having studied this problem for a number of years here in this Committee, there might be a possibility that we can attack this through training and educating procurement officers.

I do not know how much of that is done by the government. Maybe you can tell me, but the other thing is by constructing the bid situation so that we are looking at best practices and so forth when you submit your bids, because these things are let out by bid, perhaps we can give a leg up to U.S. manufacturers in that way.

I would be interested in your opinion about that. Anyone can answer. Jim, since you were talking, do you want to start?

Mr. JARRETT. I really cannot there, because that is an aspect of the business that we are not really involved in very much. We are in a largely commercial sector where it is not a bidding process.

Chairman MANZULLO. Congressman——.

Mr. JARRETT. I will leave it to others.

Chairman MANZULLO. Frank?

Mr. VARGO. I would like to respond to that and then be able to make a few more general comments also. I agree with you fully and we have started discussing that within the NAM, because the NAM represents 10,000 small companies, as well as 4,000 large ones and increasingly with the pressure that our smaller companies are under just to stay in business, to be able to extend the loan for another six months and hold on to the customers, they do not have the time to look at how can they improve their businesses.

With the incredibly efficient distribution structure we have in the United States, it becomes increasingly necessary for small companies to know how to deal with big buyers and they do not.

We actually have been thinking along the same lines that you are in looking at what can we do to build in best practices and maybe bring some of the large buyers and smaller manufacturers together, because a lot of this does come down to marketing and know how. So we do agree with that.

Could I make just a more general comment?

Chairman MANZULLO. Sure.

Mr. VARGO. Responding to what Congressman Green had raised about manufacturing, because a lot of people look at manufacturing and say, look, it is 13, 14 percent of the American work force. You know who cares? It is a very small factor.

But manufacturing really undergirds the entire American economy. It is where the innovation comes from. Frequently people say, well, manufacturing is going to go the way of agriculture, where three percent of the work force can feed the United States and half of the rest of the world. But why can agriculture do that? It is because of the genius of innovation that came out of John Deere and CNH and many other companies in developing the equipment that makes agriculture productive, the fertilizers, the seeds, et cetera and so it is with the rest of the economy.

If we do not have a vibrant, growing manufacturing sector, we just are not going to have growth in the economy at all.

Also, people overlook the fact that manufacturing is basically how we pay our way in the world. When I ask many Congressional representatives to estimate what percent of our exports are agricultural goods? Most commonly I get an estimate 30 percent, 50 percent. It is not. It is eight percent. America's farmers export about 50 billion a year and America's manufacturers export almost that must every month.

Now America's farmers have real, real trade barriers as do our manufacturers overseas and we need to open up markets for them, but my point here is that manufacturing accounts for two-thirds of all of our experts of goods and services and nothing can make up for that. We have to have a very healthy, vibrant manufacturing sector.

Ms. KELLY. Let us go on around the table. Dr. Wessner, did I pronounce that right?

Mr. WESSNER. Wessner.

Ms. KELLY. Wessner. Dr. Wessner, if you could make it brief, because we have a certain limited period of time and you did speak. I will go on to the next two hands I saw, but please go ahead.

Mr. WESSNER. Thank you. I appreciate the opportunity and forgive my enthusiasm.

Ms. KELLY. We are glad to have it, sir.

Mr. WESSNER. I would just like to make two quick points. In 1996, we wrote the saying that the $36 billion deficit with China was likely to rise. We had a very difficult time in the academies with it when we described the different objectives in the trading system.

In 2003, no one wants to talk about the $103 billion deficit with China, and neither do the reviewers want to talk about it, but we are now talking about how we retain the semiconductor industry. So I am particularly pleased that you have invited a representative of Intel, because from the perspective of basic research from the efficiency of our other sectors, from banking to trucking, if we lose our edge in semiconductor technologies and applications, we have lost a big part of what makes the U.S. economy work.

I would simply hope that at some point we can talk about some very specific things. May I say, with the greatest respect, some of what is wrong comes from this building and I think it is important that we not just complain about the trade practices of our friends in east Asia, but that we talk about how we can make things better for companies like Intel and IBM. They are integral to the nation's economic fabric. They support an amazing array of both service companies and suppliers and share R&D consortium.

In basic research in the 1960s, the Congress in its wisdom provided 2 percent of the GDP in R&D. Now, the Congress in its wisdom provides 0.8 percent. We have had flat federal R&D and rising private sector R&D, yet we have dropped dramatically in the very sectors of physics and chemistry and mechanical engineering that support the gains that have characterized the economy since the mid-1990s.

I want to be clear. We are not doing special pleading for the semiconductor industry. We are doing special pleading for the American economy, and we really think that there are a series of very concrete things, such as partnerships and targeted R&D tax credits—and I take your point about taxation. There are a number of things that can be done which would help large and small companies alike.

Ms. KELLY. Dr. Wessner, I am glad you brought that up. For the last nine years, I have represented the home base of IBM. At one point in the early 1990s, IBM furloughed out 14,700 jobs. On top of that, General Motors closed its plant in my district and furloughed out 7,000 more.

I know what you are talking about and I know that there are ways that we in this building need to react to enhance the R&D that is coming. If we do not, it is my personal opinion that the U.S. economy will not have anything further to drive it into a better and better position worldwide.

You could not be talking to somebody here in this seat anyway that would agree with you more.

Mr. WESSNER. Delighted to hear that, ma'am.

Ms. KELLY. I would like to go now, I saw the hand of Mr. Howell.

Mr. HOWELL. Back in the 1970s, as you know, there was a competition emerging between the states for manufacturing industries.

We saw the Sunbelt emerge and industrial development authorities in places like Arizona and New Mexico making pitches to companies based in New Jersey and the Northeast to move out there. And they used a variety of incentives to do that, infrastructural support and tax abatements and so on.

That competition is now global and it is being waged at the international level between countries and we are seeing the same kinds of incentives, plus more powerful policy tools being used by other governments. Things that were not available to U.S. states in the 1970s.

For example, Arizona could not offer a protected market to a company that invested there. You would have no competition from outside Arizona in Arizona because of a tariff or something and yet we do see that vis-á-vis China, where the Chinese have got a preferential value added tax for the semiconductor producers that are based there and it is causing a huge wave of investment in China that might not otherwise be occurring.

The states could not offer exemption from federal income tax. If you settle your factory in Arizona, you are not going to pay any tax. Taiwan and China are able to offer essentially that incentive to firms that locate there.

Arizona could not offer individual exemptions from income tax. If you are working in a desirable industry like software design, they could not promise you would not pay any federal taxes or state taxes, but those kinds of things are available in China and Taiwan.

Those kinds of incentives, as much as the pure economics, are what is driving this offshore movement of manufacturing investment in jobs. There is not really a coherent U.S. response to that yet. There is obviously a lot of concern, but we need more of a concerted answer as a country to that challenge that we have got so far.

Ms. KELLY. Thank you very much. Mr. Gaskin, I saw your hand and I then will go to you, Mr. Freedenberg.

Mr. GASKIN. Thank you. Many people have arrived since we went through introductions, so let me just say again that we represent the metalforming industry in the U.S., mostly small, middle market companies.

There are four levels at least, there are probably lots more, but engaged in this. You have the SMM's, those companies that we represent and Matt does and some other. We are really the heartbeat of America. They have created the jobs in the last ten years and they are in trouble.

We have multinationals. We have consumers that love low prices, but we really have a need in the public for jobs and that is what I think we have to respond to.

This last two years, almost a third of my member companies have lost money. These are privately held firms, tens of thousands of them across the country and they will not be here in three years or in two and a half years, if something does not happen.

There are short-term things and longer terms things. Steel tariffs, which we happen to have been engaged in, in the last few years, have had a dramatic impact on jobs, shipping them offshore,

accelerating decisions to produce things in other countries. You cannot document that, but you know it is happening.

Sixty-eight percent of our member companies last January reported that they had lost jobs to foreign countries. That is an acceleration over the year before and the year before that.

I think we do need to be looking at fixes that are short-term. Some things like getting rid of tariffs, but otherwise really attacking cost issues, the legal environment, the product liability environment, the regulatory environment. Some real quick, concrete action to lower the cost of doing business.

Health care, I do not know how to solve it, but what we know is that every year more and more of our small middle market companies have to give up covering their employees, because they cannot afford it and stay in business. It is a miserable situation. That just is not right.

So there are some very concrete cost things and then the incentives and some people have mentioned already R&D. You know that is important to small companies, but it is really important to big companies, because they are our customers. If they do not have new products for us to make parts for and components for in this country, we are out of business. R&D is really important to them as well and then currency issues and level playing fields.

Ms. KELLY. Mr. Gaskin, I just want to ask you, you mentioned just briefly currency issues. Do you want to elucidate that a bit?

Mr. GASKIN. Frank Vargo is the expert in the room perhaps on it, but there are a few things that we can do. Eliminating tariffs are one of them, but keeping the pressure on the Chinese and others to correct the currency imbalance is another. We do not control that in any sense of the world, but we can keep pressure on.

The resolution that is going through the floor today is a good reminder to everybody that we need to take action and keep the pressure on. I credit those in the administration and in Congress who have given the Chinese officials some gas in the last few months about currency manipulation, because it needs to be said. It needs to be done. We need to keep pressure on.

Ms. KELLY. Thank you. Dr. Freedenberg?

Mr. FREEDENBERG. Let me comment on the currency issue first and then go to another. My emphasis would be on the need for speed in that area.

The Chinese are going to want to buy time, because our argument is irrefutable and so they are going to play for time. John Minor Kane said in the long run we will all be dead and that is what is going to happen to a lot of American industry if we let them play for time, because they would like to have the adjustment after they get their financial house in order.

That certainly would not be in the next few years. We really do need to keep the pressure up. The President has made it an issue. The Secretary of the Treasury has now made it an issue. But I think the fact that Congress is pressing the administration is very, very important because otherwise we are going to see the same deleterious effects that have had such a really bad affect on the American industry.

It also parenthetically keeps other Asian countries from adjusting, at least that is their justification. They say they cannot afford

to as long as the Chinese do not adjust. They do not want to lose competitiveness to them. So that is why it is very important for us to keep this drive up right now.

Secondly, it was pointed out by my colleague from Intel, there has been less R&D money and that is something that we felt as well in the machine tool industry. We have recently begun a new smart machine initiative and we have put some of our own money in as seed money, but what Congress has done lately and it is just the reality of a tight budget, they have cut the funds, I would say with OMB's advice, for programs such as MEP and advanced technology program, which then hurts us in terms of developing the kind of labor saving machinery and efficient machinery that will keep jobs in the United States.

It sounds funny to say labor saving will keep jobs, but if you do not have the factory open, you are not going to have any jobs. We are not going to compete with cheap labor. We are going to have to compete with what America has always competed with, which is great technology.

In the area of basic manufacturing, we are not putting the money in that we need to, to stay on top; whereas the Europeans are, the Japanese are and other competitors are, but we are not and the result shows up in a few years. It is an inevitable result. I would just like to put my word in for that.

Ms. KELLY. Thank you. Yes, Ms. Darien.

Ms. DARIEN. I am here on behalf of the National Association for the Self-Employed and amongst this well respected group I will not pretend to be an expert on manufacturing, but what I am aware of and what our members are definitely aware of is that the effect of the crumbling manufacturing sector has occurred to micro businesses and these are businesses that are suppliers, retailers. These are the plumbers. These are people who have all been affected by the depleting manufacturing base. They are losing jobs.

They are losing clients and in my research, I really had not found any sort of surveys or studies that really quantified this effect. You know how the manufacturing base and how it is depleting, how that is affecting on a larger scale small business, micro businesses, independent contractors that they contract out to and that is really a large concern for our association. I am sure that that is a pretty significant number, if we could find out what that actually would be.

A couple of things pointed out by our members are obviously costs. The current cost to run their business is just astounding and the biggest cost is health care. I do not think you can effectively assist manufacturers if you do not take care of the health care crisis that is going on right now.

I think that a big focus on trying to assist this sector of the economy is to deal with the current health care climate. Thank you.

Ms. KELLY. Thank you very much. Where are we now? Who wants to speak?

Mr. CARR. I am struggling with what is left to say. The program I work with, Manufacturing Extension Partnership, deals a lot with the very small firms that are represented here, a lot of whom are self-employed and 75 percent of which are part of some sort of supply chain.

There is a quote from Alexander Hamilton we sort of keep up on our wall and it says, "Not only the wealth, but the independence and security of a country appear to be materially connected with the prosperity of its manufacturers".

This idea that you can call out one of the three primary sources of wealth creation in the country and still live with anything close to our current standard of living is somewhat ridiculous.

More than anything, we are heavily involved on a day-to-day basis trying to help these small- and medium-sized manufacturers, which have the health care costs and face environmental challenges, remain competitive primarily through use of technology and technology adoption.

It is possible. We are dealing with a lot of companies now that are adopting new technologies, that are thinking more strategically, who are embedding, if you will, more innovation into their manufacturing processes and as a result of that, are surviving, but we are just a tiny piece of this very big problem. We serve roughly 21,000 small manufacturers a year. There are 350,000 small manufacturers.

Our focus is on the health and the welfare of that manufacturer, not only just as a stand alone company, but also as a sort of integrated system of supply. A comment that was made earlier I believe by Mr. Howell is this idea that we are a smoke stack chasing the world at this point. What the states did with each other is now being played out on a global scale.

So the idea of having an infrastructure, which is one that provides the best environment, if you will, conducive to doing business in the 21st century is where we place a lot of our focus. The tools, the technologies, the systems, and the processes necessary to at least get our firms as competitive or as high performing as possible is really the role that we are involved in.

I am happy to report that there are firms that are surviving and are growing and are identifying niches, but I think the level of resources that we represent to this overall problem is just scratching the surface, if you will.

Chairman MANZULLO. We have not heard from Janet or Molly.

Ms. BROGAN. I was actually just going to raise my hand. Best for last, right? I would like to echo a couple of comments by Mr. Gaskin and Ms. Darien.

First of all, I think we need to take a look at this and this is coming from the woman who is representing the National Small Business Association. I think we need to look at this also a small business issue.

The cost of doing business is skyrocketing. The cost of health care is skyrocketing beyond that. I think there are a lot of small solutions that we can implement. Small piecemeal things we can do, but it may not get to the root of the issue.

Ms. Kelly, you mentioned procurement and training with procurement options and while I think that is a fantastic idea, I can tell you that small business procurement is difficult. Some agencies are actually exempted from FAR. I mean when we are dealing with those kind of exemptions and these kind of loopholes and things like that, it is a deeper issue than just training and talking to pro-

curement officers. While I do think that will help, I think we need to go that next step.

In addition to my gloom and doom that we need to do this, that and the other thing, I wanted to let you know some results that we got from a survey we just did of our membership.

More than 90 percent of the small manufacturers that we surveyed said that they expect their work force to grow or either maintain its current status. I think that is a small glimmer of hope. I think that is a good thing.

I also wanted to let you know that in addition to those good facts, two percent said that they have moved some portion of their operations overseas this year. Seven percent said they are considering it for next year. That is not a good statistic.

That is something that should be an alert to us that we need to continue these discussions, these roundtables with experts in the field of manufacturing, experts in the field of small business, experts such as yourself who have been here and heard these arguments and been through these conversations.

I just encourage us to take an entrepreneurial look at it and look at it also as a small business issue, because I think that will help us come to a larger, bigger solution versus piecemeal things here and there that may help this sector or that sector.

Chairman MANZULLO. Janet.

Ms. KOPENHAVER. Okay. I have actually been holding off because I did not have a quote. Everybody was quoting and the only quote I could think of was, if you like sausage and respect the law, then don't watch either being made. That just came into my head.

I do appreciate the opportunity to be here. I think this is a great forum. As you said, there is not much else to add. The American Wire Producers Association members are having big problems with health care. Most of our companies are small businesses who are just getting killed by the increasing costs.

The currency issue is another important issue for us that we are working on. I did bring with me in response to actually a request from the Chairman, who I guess you were conference called in to a meeting one of my members had with Mrs. Napolitano, you had asked for some information on nails. This is just one sector——.

Chairman MANZULLO. Foreign nails.

Ms. KOPENHAVER. Foreign nails. Right.

Chairman MANZULLO. Okay. All right.

Ms. KOPENHAVER. It is just one product that our members make, but it does give a little tiny snapshot and if you multiply that times however many thousandfold of small businesses being hit by these problems in the U.S. it tells a big story.

Basically overall imports of these products have grown. From 2001 to 2002, the imports grew by 25 percent and by a further ten percent in the first half of 2002 to 2003. Imports from China, since 2001 have increased by 119 percent. They are killing our nail producers.

Over eight companies in the last couple of years have just shut down. Our largest nail producer has really decreased dramatically the amount of nails that they are producing. Overall the industry has, in the last couple of years and this is not a large figure, but they have laid off more than 1,000 people and it is more than half

of the companies that were in the U.S. that were manufacturing nails are no longer in business. Again, it is just one snippet. one tiny sector, but it tells a big story I think of just nationwide.

Again, thank you for inviting us.

Chairman MANZULLO. Let me ask any members what are you hearing from your constituents? John?

Mr. PETERSON. John Peterson, Pennsylvania. I represent a large rural district in northern Pennsylvania, 16 counties. In the last two years, the year 2001 and 2002, my actual count is 17,376 manufacturing jobs gone. That is more than a thousand a county. These are small rural counties.

That pace has continued in 2003. I lost one company and that was over 1,000 itself and I lose one almost every week it seems like. If we have a good week, we did not have a company downsize or close.

I guess I want to ask a couple of questions. A number of you have mentioned, I am very focused on China myself, because I do not think it is fair competition. They are not sleeping in Mexico. They have a game plan. They are working it. They are doing it very well and you have to give them credit. They are smart businesspeople. We have not had a low labor market that anywhere near could compete with them. This is a giant.

An issue that many of you have brought up that we are doing nothing about in Congress is the cost of health care. Would you consider maybe that the largest down pressure at the moment, especially for the smaller ones?

My friends that run larger companies self insure, have some ability to control their costs and get an affordable price. If you are a smaller business, you are an entrepreneur, I was a supermarket operator for 26 years, so you have no ability to control your health care costs.

Over half of America is served by one insurer for health care and there is nothing. Nobody is even discussing it. You know and I know that a monopoly never gives us a good price and when you allow monopolies to exist in over half of America as one insurer and they are not green and they invented the system we have, God bless them, they really were the ones, but where they control the marketplace, our businesses are not going to be competitive.

Now you add to that exploding energy costs and if you use natural gas to heat, melt, cook, bend or if you use it like the petrochemicals and fertilizers and polymers as an ingredient and also as fuel, you will not compete today with Europe having natural gas at half our price.

One of our chemical companies recently moved 2,000 jobs to Germany. Germany. That is not a cheap place to do business. But natural gas costs half as much there.

If we do not get a handle on energy costs, health care costs, China may not be the biggest problem when you come right down to it. They are a huge problem.

Another thing that is really undervalued in Washington, some states value it and those who value it are doing much better, is technology education. You listen to the Department of Education, I sit on HHS. They talk about academics, academics, academics and they are important.

If you are not using the latest technology, if you do not have high field technical workers today you cannot compete with cheap labor. That is the only way we can compete with cheap labor is use the best technology.

The federal government has not invested hardly anything in technical education, in my view. Have not valued it. Now some states are doing it very well and they are adding Congressmen where states like mine is losing Congressmen every ten years. You see that through redistribution.

In my view, it is a much bigger picture than just foreign imports, whether it is tort reforms or whatever. We have a lot of issues that we need to allow our companies to be competitive with costs.

Chairman MANZULLO. Chris Chocola.

Mr. CHOCOLA. Thank you, Mr. Chairman. I am Chris Chocola from Indiana. Indiana is a state that is very heavily reliant on manufacturing. My district in particular is north central Indiana. We have lost several manufacturing jobs.

In fact, I am a freshman member of Congress. I have not even been here a year yet and I came directly from a lifetime in manufacturing. I spent my whole life in manufacturing and ran for Congress in large part because I thought we needed more people with that perspective here.

The disappointing thing since I have been elected though is I think we have all stated the case very well. I think there is no question that we have lost manufacturing jobs in America. There is no question a lot of them are moving overseas.

We can keep talking about that all day long. The question is: What do we do about it? I may have been a member of some of your organizations. Certainly you all have members of your organizations in my district and I hear from them daily. I visit them on a regular basis.

I hear the problem stated all the time very clearly, but I do not hear what the solution is. I think it is so important that stop complaining and start focusing on what do we do.

In Congress we have done some things. Certainly association health care plans to talk about health care costs, not the end all but it is a step in the right direction.

Some tort reform that we have not been able to get through in the Senate. Again, there are a thousand pieces of this puzzle and there has been progress on some of them, but I would consider it a small victory if I walk into one of your members' organizations and they say, we have complained enough, but these are the things we ought to do.

That you are educating them and we are educating them on what the solutions are, rather than just the problem. So as a former businessperson, if you complain much and do not do much, you go out of business quickly.

All I hear a lot of times is the low hourly cost in foreign countries. That is certainly an issue, but we are not going to compete with that. In our business we had 1,300 employees.

We never would have moved our business because of low hourly wages. It was a very small part of our total cost of doing business, but the 134 lawsuits in Barber County, Alabama was a real problem. The $100,000 that IDEM wanted us to put into a paint booth

the size of that picture basically that we did not paint more than once a month in.

The fact that we had the highest catches on corporate profits in the industrialized world essentially. Those are problems that we all need to work together on and we need to get your members focused on and we need to be able to talk about it when we go visit their businesses, rather than just stating the problem over and over again.

I think certainly everybody here is on the same page. I hope that we can have a much more substantive discussion on what the solutions are in the future rather than just stating the problem.

Chairman MANZULLO. Mrs. Kelly and then Mr. Ryan.

Ms. KELLY. I just want to pick up on what Mr. Chocola has just said and go back to you, Mr. Vargo, because you said that the NAM has ideas about what we can do here that would provide some solutions.

It is absolutely essential that we work with you and with every person here and every association. We need the tools from you so we can fight the battles here that give you the tools to do the work that you need to do here in the United States and keep those jobs.

I am sure that the Chairman would agree with me that if you have ideas and you are willing to come in and speak with us about them, we have very open doors and open ears. Please do that.

Mr. VARGO. Thank you. We do and we will. Of all the problems we face, by far the most serious is the rising cost pressures and the inability of manufacturers to raise prices. Let me just illustrate. Since 1994, U.S. manufactured prices on average are six percent lower today than they were then, but the prices and the costs and the rest of the economy are up about 18 percent. We have had to absorb all that and the way a lot of companies have absorbed is just by going out of business or looking at going offshore.

What raises these? Health care. Absolutely number one and unfortunately I do not have the solutions on me, but we have to find them.

Energy costs. This is a relatively new item, but it is going to drive a lot of our chemical and plastic and other companies out of this country, because energy is cheaper, as you note in Germany and other places.

Cost of litigation. These ludicrous asbestos suits. Come on now. How long has Congress been going around this. We have got to do something about that. We have got to get the cost of litigation down.

We have to do something about the fact that it takes longer to get a patent now than it did five years ago. We have got to do something about the fact that we are graduating fewer engineers today than we did five years ago and ten years ago and about half of our graduates students in engineering schools are foreign students who are going to take their educations and use them to develop technology and other questions. I don't have a complete agenda with me.

Chairman MANZULLO. We have a seven-point handout.

Mr. VARGO. We want to move on then.

Chairman MANZULLO. Congressman Ryan.

Mr. RYAN. Thank you. Chairman Manzullo, thank you for putting this together for us. Part of it is finding solutions to what the problems are.

I was home this past weekend and Chairman Manzullo and I have a tradition that we go home for the weekend and we come back and we exchange war stories as to how many jobs we have lost and where they went and what industry they were in.

I missed the beginning and when I went home this weekend, I had manufacturers tell me that the banks are not even loaning them money anymore and in some instances pulling money out already.

When I came in you were talking a lot about R&D and I heard health care. None of these are issues that transcend any particular industry.

I do not want to start a discussion about two of the major issues that we have in Congress today, the war and the tax cuts. I do not want to open up that can of worms, but I would like to do is just whoever would like to comment on this.

The money that we have spent on tax cuts, say for instance over the last couple of years, would it benefit your industry more if we took that money and put it somehow into the health care for you or put that money into research and development? Just say the same money, whatever dollar-for-dollar and there are all kinds of numbers floating around. I do not even know what the exact one is.

Would that benefit you more if you had that much money that we spent on the tax cuts? Would you rather have seen that in research and development money or prescription drug coverage that would alleviate a lot of the health care problems.

Chairman MANZULLO. That is a loaded question. Does anybody want to handle it? But it is a good question.

Mr. RYAN. If not, say it. We are here to find out what the answers are.

Mr. COFFEY. I think when you look at any business, you have to look at five factors in the business. You have to look at the market. You have to look at the technology. You have to look at the organization. You have to look at the human resources and you have to make sure that in any solution, any approach you take that you address the drivers of a business so you do not get down to a situation that says, well if we spent the money this way versus that way, would it be better for you, because the business needs you to look at what they are trying to do in a balanced way.

If you spend it on straightening out the market, which we have talked about the instability in the market and we have several recommendations for how to solve that problem or at least address that problem, then you go to technology.

There are plenty of people here who would say we need more R&D investment. All right. Then you go to human resources and there are plenty of us in this room and outside this room who would tell you nothing innovative occurs in a society unless human beings are highly trained and highly skilled at the working level.

If you are not going to do that, which the federal government has not been doing, then we are not going to make it in terms of innovation.

In any competitive situation, like we face right now, the future of the industry in the United States depends upon innovation. We have to come out with new things that are not now out there.

What we have is a super efficient global economy for the copying of everything that is out there. What we need is the innovation. What we need is the investment in people to create that innovation and in fundamental basic R&D as you have heard here before today, to make sure that we are out there exploring those perimeters.

Chairman MANZULLO. I want to go to Congressman Ballance. My nephew was an engineer. Good kid. Lost his job at EDS in Milwaukee. It was a massive layoff and they shipped those jobs over to India and other countries. It just amazes me how we can talk about more education, more R&D, more people being involved, not enough people involved in engineering schools.

Where are those jobs going to be? Do you know the number of unemployed engineers in this country? I could name my nephew for one. Who is going to take care of these kids that are unemployed now? We are talking about more education. The kid went to Milwaukee School of Engineering. He is a tremendous engineer.

You know what he did? He got laid off from EDS and he said, you know life is short and he is remodeling homes now, because he can make a turnaround on it. He can be his own entrepreneur on it. He went for months without being employed.

Mr. Ballance and then we can go over to whoever raised their hand. I thought I would throw that in, Frank.

Mr. BALLANCE. Mr. Chairman, thank you so much for this roundtable. I came to listen and I have enjoyed the comments that I have heard. I do have to go to a rural meeting and I wanted to comment before I left.

I represent a rural area of eastern North Carolina, northeastern that is heavily dependent on textiles and now many of those towns and all of those jobs are gone.

I have always believed that one of the key roles that the government should play in this national government inclusive is creating a framework where businesses can foster and prosper. I am not sure that we are doing all that we can do or should do, because if you are in business, you are looking at the bottom line. You are not out there just to try and help people. You are out to make money. If you help people in the same process, then that is good.

But Mr. Chairman, I think that we have to have an environment, tax wise and otherwise to make these jobs attractive to businesspeople to keep these jobs in America and apparently that is not happening right now, because all of the jobs are leaving.

Chairman MANZULLO. Congresswoman Millender-McDonald.

Ms. MILLENDER-MCDONALD. Thank you, Mr. Chairman and I thank you all for being here. I represent Los Angeles' south bay part of southern California. Senior member on transportation so we have the ports of Los Angeles and Long Beach. Also I represent from Watts to Virginia Country Club. You are talking about a dichotomy of trying to balance the whole notion of the needs and services of my constituents.

When the gentleman talked about innovation, you are absolutely right that there must be innovations. There must be investment in

people, but we must all come to the table with solutions for that, because we have children and grandchildren who are already in college, who are contemplating coming out finding a good American job. It is incumbent upon us to make sure that those jobs are here.

When the Chinese businessmen were here a couple of weeks ago and I asked them about the currency manipulation that they are doing, they said do not blame us. Blame yourselves. Perhaps they are correct. We must blame ourselves.

We must look at the solutions for health care cost. It is absolutely skyrocketing, but it is incumbent upon us and you to help our future generations for finding the type of nexus that will give them the jobs that they want.

I have a granddaughter who is nine years old who has just run for vice-president of student council. My God I says she is already going into politics. But what she said is that, Grandma, why is it that every time I look at a label it says made in China? I says, you have been here before. My goodness with that type of mind. She is extremely bright. She is concerned already at nine years old as to why the labels were saying made in China.

I think we must find the innovation. When we have the HB1 bills that are coming out of this Congress, where we are bringing people over from India and all to do the jobs that his nephew could have done as an engineer, it is high time businesspeople that we work together. Business is our business and business is your business, but business should be all of our business in trying to find solutions.

We do not have those answers today, but we must have other open discussions like this talking about the recent tax policy and why that has failed to encourage manufacturing sector jobs. That is something that you guys need to tell us. What has happened? Why has that not created the jobs that we thought would be contingent upon this tax policy?

What can we do? We are all groping in the dark for answers, when the answers must be among all of us? So when the gentleman says innovation and investment in people and the five factors are that of marketing, technology, organization and human resources, you are absolutely right. But the question is: How do we get there?

Chairman MANZULLO. Mr. Schrock.

Mr. SCHROCK. He had a question. He had a comment.

Chairman MANZULLO. Let me——.

Mr. SCHROCK. Okay. Thank you, Mr. Chairman. I am sorry I am late, because I love discussions like this, but I was meeting with some Defense people, which kind of ties into the question I want to ask Mike Wellham, as it involves the joint strike part of the F–22, the F–18, the M–1 A–1 and all that sort of neat equipment that we need in the military.

I understand that your company is one of the major producers of titanium, supplier of titanium in the U.S. for defense and aerospace companies and U.S. statutes that were created right here on the Hill require that all titanium products delivered to Department of Defense must be smelted domestically to protect production capabilities, such as yours, but it also came to my attention that your

facility now is in Ohio, not far from where I was born and raised oddly enough.

It is currently experiencing a work stoppage due to a contract dispute with your union employees and I think you had the same thing three or four or five years ago. What is your plan to fulfill the needs of the major aerospace and defense suppliers, since they are limited in sources of titanium for production and you are likely the sole source supplier in many cases? It is a catch 22 I am sure.

Mr. WELLHAM. It is a catch 22 and it is a double-edged sword, because on one hand we have our customer base, including the federal government coming to us on a regular basis and asking us to lower costs, on the other hand we have a union environment in which our costs are not in line with our global competition.

We are looking at those costs trying to determine how it is we can drive costs out of our business to make us more competitive with our global competition and to make up for some of the trade issues that we are dealing with.

But how to serve the customers, particularly in this time when there is a labor stoppage, fortunately or unfortunately, which way you want to look at it, the demand in the titanium industry as a whole currently is half today what it was five years ago.

There is an overabundance of capacity in domestic as well as foreign titanium currently and quite frankly, we expect our labor dispute to be settled in a reasonable time frame, but we also expect that we can support our existing customer base with the non represented employees that are currently in place at our mill.

Mr. SCHROCK. It is a problem, because when you had Defense platforms and ships and fighters and such that need that stuff it could certainly impact the way we react around the world, if just one little product like that is held hostage and that is a problem. Believe me, I want things to stay on shore too. I am tired of everything going offshore.

You heard a few folks say here, somehow we have to balance that and try to help solve some of those problems so we do not have it, because you could be held hostage by your workers and that could be a very bad thing.

Chairman MANZULLO. Congressman Shuster.

Mr. SHUSTER. Thank you, Mr. Chairman.

Chairman MANZULLO. Do you want to pull the mike closer?

Mr. SHUSTER. Thank you very much. I apologize for coming in late and having heard all the discussion and some of the questions I may pose you might have talked about already, but I certainly would like to hear your answers.

I hail from rural Pennsylvania. I do not know if Mr. Peterson has spoken yet, but our districts border each other and we are losing our manufacturing base in rural Pennsylvania, the rural America.

I do not believe that we are ever going to be able to compete with their low labor costs or their low cost to produce a plant or the land costs, but there are things we can do here in government, tax policy, getting that burden off your back. The regulatory environment that you have to live under, change that, make sure you are able to operate out there without the government tripping you up at every turn.

Of course trade. Making it a level playing field out there. We have to make sure that we are pounding away at these countries that are putting up barriers for us to get in there to trade. The Chinese with their manipulation of their currency. Those are the kinds of things that I would like to hear your ideas on what we can do here in Congress to make your job easier.

Like I said in the beginning, I do not think we are going to find an American worker that works for 50 cents an hour, but still when you look at some of the studies on productivity, the American worker is still the most productive worker in the world.

I heard somebody today talking about manufacturing a car in America, the quality is high, it is relatively inexpensive, the Japanese now are sending Hondas that are produced in Ohio back to Japan. We can succeed.

Mr. BALLANCE. That is okay. That is good.

Mr. SHUSTER. That is good. That is a case where we can do that with our work force, our highly skilled work force. I would like to hear your ideas on those other tax policy, regulatory policy and trade, where those stumbling blocks are. Thank you, Chairman.

Chairman MANZULLO. Jim?

Mr. JARRETT. In the area of regulatory policy, one thing we have not touched on so far, the United States has always, particularly in high technology, it has always been this great breeding ground for start-up companies.

One of the aspects of those start-up companies is that they cannot afford to pay high salaries to their people. So one of the things that they do to attract people to go to these very risky ventures is that they give them a piece of the action. They give them stock options so that they can be owners of that company.

This has proved to be a very successful method for attracting and keeping people to small companies and to large companies. In the case of Intel, we give stock options to all 80,000 employees.

Right now we have got the Financial Accounting Standards Board in a great rush to require the expensing of those stock options and all the surveys indicate that companies, if this happens, companies are going to be giving out fewer stock options.

At the same time, if you go across the Pacific to China, take a look at their tenth five-year plan, go to the IT section there, they specifically encourage the use of stock options as a way to attract skilled people both in the country and to return to the country from other countries.

So this is happening and we are seeing it in China. We are seeing start-up companies over there using stock options and so we have this very curious thing where a capitalist country is moving toward not using stock options while a communist country is moving toward using stock options. It is a very curious sort of thing.

There is a bill in Congress right now, sponsored by Representatives Dreier and Eshoo and it would slow down this express that FASB is running and say, take a few years, let us see what happens as a result of Sarbanes-Oxley, which we just passed last year.

Let us assess what is going on there. Let us look at more disclosure of information on stock options for companies and make sure that investors know everything that they need to know about stock options and let us take three years of a holiday here before we im-

plement something that could have some very fundamental impacts on American innovation. It kind of falls under the category of do no harm. What we think is important is just let us pause for a minute before we rush into——.

Mr. SHUSTER. If the Chairman will allow me.

Chairman MANZULLO. Sure, go ahead.

Mr. SHUSTER. That is a typical knee-jerk reaction down here in Washington. We find some people abusing the system and all of a sudden we want to stop everything and I think you are absolutely right. It is an irony what you said a communist country is moving towards capitalism and we are moving away from it, it seems.

Chairman MANZULLO. Kristie?

Ms. DARIEN. I just want to make two comments. First to respond to the Congressman's question, at least on behalf of our members. We have 250,000 member businesses which represent about 600,000 owners and employees. We would give back all the money to get health care costs lowered.

For our members, any money they might have gotten from the tax cuts would have just went to cover costs of their health care that is rising 15 percent a year.

We have had members that have three to four increases a year and the reason why we say that, it is not just about health. It is not just about keeping your workers and yourself healthy to run your business. It is about attracting employees. How can they attract employees when they cannot offer a health care plan?

You know those educated workers are just going to go to some larger company that is going to offer them pension, health care and so for us health care is much more important than any sort of money they had received from a tax package.

In terms of manufacturing, another concern is what is SBA doing? From our perspective, Small Business Administration should be in the foreground where something gets done, decisions are made, research is done on this issue.

Manufacturing is one of the biggest faces of our economy and it is a really large part of small business history and yet I feel like the SBA has not really taken a big role in trying to come up with solutions or research on this issue. I would challenge that the SBA get involved, not just in research and coming up with potential solutions, but especially also access to capital.

Unfortunately, SBA loans really do not help the manufacturing sector. They are hard enough to get as is for a small business owner, but the current limits just will not help a manufacturer whose one piece of equipment is $250,000. We really need to look into ways that we can help manufacturers through an SBA program.

Chairman MANZULLO. Kristie, let me answer that. We have been in the process of drafting the reauthorization bill and it is called The Small Business Reauthorization and Manufacturing Revitalization Act. It is a mouthful, but we increased the 504 loan limit from two to four million, because of the tremendous amount of capital that is necessary.

The shrinkage of capital and the complexity of analyzing the manufacturing company could lead to the following conclusion: In-

gersoll in Rockford, Illinois, one of the giant leaders in cutting tools, machine tools, production line systems, split into three parts.

The first part that spun out was the production line system. Think of engine blocks being on a conveyor belt with different machining applications. No one wanted to buy it. Phil James who used to be with the company retired. He went to ten banks and joint venture companies and if you look at the lack of information on manufacturing, you know some guys don't know the difference between a Bridgeport and Bridgestone tires and they don't know the human capital and ideas and the value of a patent and they don't have the ability to research the market and see if you can make some money.

Do you know who bought Ingersoll? A wholly-owned Chinese or state-owned Chinese company, Dalian, came in, bought that Rockford, Illinois company; saved hundreds of jobs at the company itself, plus hundreds, if not thousands, from the subs and the subs' subs.

Now, what does that indicate to me? It indicates the fact that very few people in this country understand the nature of manufacturing. There are only about 45 or 50 Congressional districts out of 435 that have a substantial manufacturing base.

My Dad was a master machinist and chef and carpenter in the restaurant there. All these things that his generation got involved in.

But today there has been a big problem. Washington does not understand manufacturing. It has absolutely no clue. The Bureau of Labor Statistics, we contacted them. How many tool and dye jobs do you have in Rockford, Illinois? The tool and dye center of the world. 570. That was their number. They were off by probably ten or 15 times. No clue.

Roger Ferguson testified before our Small Business Committee, the deputy at the Fed, marvelous man and I said, Dr. Ferguson, I think I gave him almost the quote from Mann, even though it was not out at that time, about the decline in manufacturing. He said it is only, at that time, 16 percent of the GDP. It is less now.

I said, Dr. Ferguson, I said have you ever had your hands bathed with the sweet smell of machine oil? I want to tell you, that is like gold dust if you are involved in manufacturing, because that machine oil, that smell of that, that means things are being manufactured.

He said, no. He said, but if you invite me, I will come to your district and he did about six weeks later. He came out there. We took him to a tool and dye shop, a mold shop, boring facility, machine facility and he sat down and as a result of that and the man that he brought up in Chicago said he knew what a Bridgeport was. He had a background in manufacturing, but he added to the advisory panel of the Fed in order to make up the periodic beige book, one of the young men in our area who is involved in manufacturing.

We asked the Fed some time ago to take into consideration under economic indicators the, Paul what is it, the machine tool index? Matt, can you help me on it? Paul, why don't you take the mike?

Mr. FREEDENBERG. Quarterly report on machine tools.

Chairman MANZULLO. Right. The quarterly report. Paul, why don't you explain what that indicator means and then go into your own comment?

Mr. FREEDENBERG. Well, it is——.

Chairman MANZULLO. Could you pull the mike closer?

Mr. FREEDENBERG. It is a leading indicator of manufacturing, because obviously if you are going to be going into more production, you are going to be buying machine tools. It is the first indication of increased production in a company and that is what I was really going to talk about, which is we are talking about how do you get competitive?

We had a study a couple of years ago that showed that our entire manufacturing economy has been, our sector has been increasing in productivity, much higher than the rest of the economy, six, eight percent in the last few years. But, if you look at any particular machine tool that comes out, you can increase your productivity by 100 percent, 200 percent, because the same operator might be able to operate two or three machines.

If you are talking about competing against low cost labor, the only way you can do it is with technology and with staying ahead of the game that way.

Now, obviously there has been such a downturn in manufacturing. You were talking about Ingersoll; Ingersoll sold after bankruptcy for $15.7 million. You have got one of the real gems of American manufacturing.

Chairman MANZULLO. They got the campus and all the patents and all the machinery.

Mr. FREEDENBERG. It is incredible and it shows you how bad off our manufacturing sector is when the market value that is at that low of an amount and as it turned out, the Italians really got a great bargain out of it and they are going to be in the center now of not only our domestic aerospace, but with Ingersoll's capability defense aerospace as well with their fiber placement and their stealth, et cetera. Stealth production.

The fact that the marketplace values it so low tells you what direction manufacturing is going right now. The only way around it and I really bristle at the Chinese remarks we should look to ourselves. How do we look to ourselves and they get a 40 percent advantage in price? That is not ourselves. That is them. It is not a——.

Chairman MANZULLO. But it is also us. We cater to——.

Mr. FREEDENBERG. Well because—it is us because we did not negotiate a very good deal and we have not pressed our own rights either within the WTO or press the IMF—in which we are the largest voting member—to enforce the rules. Clearly these are violations of international agreements.

That is our fault, but it is our fault for being sort of Mr. Nice Guy and saying, well we will get around to that in a little while.

The point is, you can also do a lot by investing in manufacturing, investing in innovation. The capability is there. Industry can become quite competitive worldwide. It is already the most productive. It has the capability to become even more productive, retain those jobs and go head-to-head with the Chinese even, because labor is not the major cost. It is just one of a number of costs.

I think Frank's number is 11 percent the total cost of the goods. Just having low labor costs does not mean you are going to win the competition.

In fact, when I traveled to China a year ago, the Chinese were looking for productive American machine tools, because they wanted to be competitive in the future. They knew that they were not just going to be able to rely on pure labor and they certainly were not going to produce good quality products if they simply were relying on labor and old fashioned machinery. There is a lot that we can do to stay competitive.

Chairman MANZULLO. Bill?

Mr. GASKIN. Three quick comments regarding the cost advantage. Plant and Moran, a consulting firm in the Midwest that works a lot with middle market manufacturing companies, metal stamping and plastic injection molding, calculated that for metal stamping the Chinese cost advantage is 27 percent and that is labor and material cost and things like that.

If you are dealing with the kind of disparity we are with currency, 40 percent, even if you got 20 of that corrected, we would be within seven percent. We can be seven percent competitive. We can beat them if we get that kind of change in the currency. That is just an anecdotal comment.

Second, on the Congressman's question about the tax incentives that have been provided, you know on the business side the accelerated depreciation and the expensing that has been in the tax bill this year is very positive. Our industry, as I mentioned earlier, has lousy profitability. A third of the companies lost money. 1.8 percent average profit in the industry, before tax.

It is tough to look at tax incentives right now, just because you are losing money. They do not help you much. On the other hand, there is a company in Michigan that is doing okay. They are about a $50 million company. They are buying a $6 million stamping line from a U.S. producer.

Based on that tax credit and the expensing and a brownfield credit that is available to them, between the two they have a new customer where they have about 20 percent of the capacity of that stamping line filled with a new customer.

Now in the normal environment, they would not buy a $6 million piece of machinery for 20 percent of the time, but because of the tax advantages, they figure they are cash positive for two years. They are still making money and so he has two years to fill the rest of that machine. He is buying $6 million worth of capital equipment in a tough time. So it works and our machine tool industry needs that support.

To answer the other question from Congressman Shuster about specific things, I do not want to pander to the Chairman, but the seven points that you have in your slides, the seven points for what manufacturing needs, it is an excellent starting point.

I would put number five, kill the steel tariffs to top, because that could happen tomorrow, not by this body, but by somebody up the street.

Chairman MANZULLO. Mr. Ryan might have a different——.

Mr. GASKIN. I understand that, but for manufacturers it would send a clear signal.

Chairman MANZULLO. At least resolve the issue of the steel tariff then everybody could agree on that.

Mr. GASKIN. Right. But the other items that you have on your list are excellent. It is the reducing health care. It is the seven things. They are really positive steps that Congress could take. I think they are——.

Chairman MANZULLO. Constituent Brad Comb that bought the first high speed hard milling machine that is made by a Japanese firm. It is not made in America, 20,000 rpms.

Five months earlier, 13,000 rpms was the state-of-the-art. He has both machines. He has orders that are coming out the ears.

Tom, I want to ask you to take a couple of minutes. You appeared before our Committee and had some of the most innovative tax thoughts on what American industries could do. Do you remember when you appeared before us?

Mr. HOWELL. I do, Mr. Chairman.

Chairman MANZULLO. They were a very, very unusual approach. Could you take a few minutes and share those with us?

Mr. HOWELL. Yes.

Chairman MANZULLO. Could you pull the mike forward, sir?

Mr. HOWELL. Yes. They were actually not so much my thought. We just released today the study for the semiconductor industry association, which looks at the industrial policies in China and also in Taiwan that have been feeding this movement of investment to those areas.

One of the factors that we point out is some of the tax policies. One of the benefits that the Taiwanese brought in first and has now been copied by the Chinese as of about two years ago is the tax holiday, where essentially an enterprise that builds a fab, the wafer fab in an industrial zone that they designate as a high tech zone does not pay any taxes for five years and they do not begin running that holiday until the enterprise earns its first profit.

So a start-up for example, because it is not profitable right away, so the clock does not begin running until your first profitable year.

They also have got tax depreciation rules that enable them to defer the first year of profitability so the net effect is a holiday that may run ten years. It is essentially tax free production for ten years. That is one incentive.

Now the other is, Jim mentioned the stock options and it is true that they are encouraging the use of stock options in both countries, but the way they are taxed is interesting. In Taiwan the stock options are given as compensation, in stock given as compensation to employees at semiconductor plants and they are taxed at the par value of the share. So that could be a dollar or one yuan, one dollar and the market value may be $150.

That individual only pays income tax on the face value of the shares. When they convert and sell the stock, they do not pay any taxes on the capital gain, because there is no capital gains tax in Taiwan.

Now in China, it is working the same way, although their tax system is a lot more primitive than that of Taiwan. Essentially you get the stock options and sell them. Exercise them and sell them and you don't pay tax.

What that means is you can, as a young engineer, get rich very quickly working for one of these companies, particularly one where the stock is hot, like TSMC or now SMIC in Shanghai.

There is nothing like that in our system to compete with that and the result is that the foundries that are being built over there, their competitors say they can get the best people. They are drawing the best people and they are not just drawing Chinese or Taiwanese. They are drawing people from Europe and the United States and Korea and all over the place, because that is where you can go to make a lot of money in a hurry, which is what motivates a lot of people.

Chairman MANZULLO. Chuck?

Mr. WESSNER. Mr. Chairman, I appreciate the opportunity to speak with you again. I would like to commend you for bringing this group together, because I think you have clarified some things that had not been clarified, and Congressman Shuster and Congressman Schrock have raised some very valuable points.

The first thing I think you clarified here is that the problem that we are talking about is a loss of jobs in high-tech sectors. We have to ask, "Where is that coming from?" It is not coming from fair competition on a level playing field and it is not labor costs. I think that is an important finding of this.

It is coming from the impact, as Tom Howell just described, for foreign industrial policies. So the question is: Do we want to whine or do we want to find something constructive that we can do? And you have identified three areas.

Some of them are framework conditions. Some of them are technology policy and R&D policies and some are trade policies.

I will be very brief, despite that structure. The first—and I mentioned, in your absence, I thought that some of the problems we are facing come from here.

Chairman MANZULLO. I went down to the Floor to speak on the bill that Phil English and I introduced on the Chinese RMB being undervalued, but I did not have a chance. I came right back.

Mr. WESSNER. I am glad you did, because if you look on the trade front, the point that Paul Freedenberg raised, which is exceedingly important, is that speed is necessary. You know, I used that analogy about the sniper. We do not go into reproduction, that is the creation of new firms, when we are having them taken down by other countries' industrial policies.

There has to be immediate action on the part of the USDR. You cannot do enough to press them. It only takes a year or two to make very significant shifts in the future of the U.S. economy. We can document that, but we would very much like to leave that with you.

George Scalise, not a man known for his hyperbole, who is the President of the Semiconductor Industry Association, has warned that we are facing an unparalleled situation of people like Gordon Moore, who is a founder of Intel, has suggested that the business model that Intel was built on can be changed by the collective impact of these policies.

In the 1980s, this Congress in its wisdom took a combination of policies in technology policy funding SEMATECH, and an innova-

tive trade agreement that did not restrict access to our borders, but stopped dumping from other countries.

They set up the semiconductor research corporation. They have done a series of things. We have some of those things at work right now. We mentioned energy policy. We are all interested in homeland security and we are focused on manufacturing.

You have a program that works on that, that the National Academy of Sciences evaluated and found to be highly effective. It is called the Advanced Technology Program, where 63 percent of its grants go to small companies.

We are trying to help corporations. If someone wants to accuse us of being in favor of corporate welfare, in favor of welfare for American corporations, where do I sign up?

You talked about the problems in education, Congresswoman McDonald. If you will look, there is a chart here I would like to show you. It will not be long.

This shows our engineering degrees. We graduated 55,000 undergraduate degrees last year. The Chinese put out 220,000. We may be twice as smart as some foreigners, but I am not sure we are four times smarter.

I really think that we need to look at how we can get more women into engineering. They are winnowed out. I am not suggesting an entitlement. What I am suggesting are positive grants, awards for women to participate in engineering. Scholarships. There are ways to address that.

Chairman MANZULLO. Why are they winnowed out?

Mr. WESSNER. They take a boot camp approach. The idea is to get as many out as possible. And we can document this. You can talk to the Office of Science and Technology Policy. There have been a number of academy reports. I am not, sir, particularly PC in my views. I mean I am really not.

Mr. SCHROCK. Good. You ought to run for office here.

Mr. WESSNER. Women are good in math and details, that is why we do not want you to be engineers, right?

Ms. MILLENDER-MCDONALD. Right.

Mr. WESSNER. I mean that just does not float. There is a systemic problem here that needs to be addressed and when you identify that and what I am talking about is not allocating. I am talking about incentives to encourage women to participate more, but that is not the only thought.

So you have ATP. You have your excellent SBIR program. That should be reinforced. The reason I could not speak to you—and I was honored to be invited to speak to your Committee at the last meeting—was because the Bundestag asked me to come talk to them in Germany about the ATP program and the SBIR program.

They think these programs represent best practice in the world and they wanted to know how to emulate it. They asked me, mystified, why the budget proposals were zero for that program.

Chairman MANZULLO. Charles, could I throw something out to you?

Mr. WESSNER. Sure.

Chairman MANZULLO. We had a hearing, a very remarkable hearing last week and it was on outsourcing. One of the witnesses was Natasha Humphries, a young African-American lady and she

worked for Palm, P-A-L-M, Palm Corporation, who refused to comment on what happened to her.

She was forced to train her own replacement in India. The company never squared with her, and 12 highly trained people—I think most of them were women—got the axe from Palm. And, ironically, one of the women was born in India, moved to the United States and got fired when she was seven months pregnant. You were there.

It was riveting. There it is. She is highly trained. She is competent. She is articulate. She got canned with 12 of her friends, only one has gotten their job back.

Then I saw in the paper where somebody wanted to increase the number of H–1B visas. I am putting out a dear colleague and saying, first you take care of Natasha, then you take care of the other 11 people that were fired and let me give you some lists of people, including my nephew, that have been canned in this country—I am serious—before we let other people in here to take the jobs of these Americans that were born and raised in this country.

I mean this is the American dream. She was the sweetest lady, kind, pleasant, intelligent, the type of person you would want to have in your corporate structure. Jim, write her name down. It is Natasha Humphries. And you look at her and say, I cannot believe she is unemployed.

Mr. WESSNER. Congressman, that is the point. You want Jim to be able to write her name down and you want Intel to be here to hire them.

Chairman MANZULLO. I was teasing Jim.

Mr. WESSNER. The way that you do that, I am here to give you the best advice possible and what you want to do on the one hand create new firms, which will hire. There is this inevitable term and the individual stories are always troublesome, but what you want is an environment where she can be promptly rehired by an American firm or for that matter by a German firm working here or an Italian firm.

Chairman MANZULLO. She got canned, because they could do the same thing cheaper in India. If there is a shortage for people like her, why can't she get a job?

Mr. WESSNER. My suggestion would be that she can get a job, but I am trying to take one step back from the individual tragedies and ask: What do the high tech firms themselves tell you they need? There are on the H–1B visas occasional shortages of highly qualified people.

I am in effect the son of an H–1B visa person. He was German. He came in the 1860s to get out of Germany and he got a wonderful job that provided him with a blue uniform and all he had to do was go south.

Chairman MANZULLO. Somebody came in the 1860s? How old are you?

Mr. WESSNER. Indirectly, sir. But my point is that they have all come through, haven't they?

Mr. SCHROCK. He looks well for his age, doesn't he?

Chairman MANZULLO. He really does.

Mr. WESSNER. Sometimes when you talk about these issues, you feel that you have done it for several generations.

Chairman MANZULLO. Congresswoman Majette? You were at that hearing, weren't you?

Ms. MAJETTE. Yes, I was and her story was very compelling. I agree with the Chairman that we need to create the kind of environment so that we do not have that kind of casualty, but I also agree with you, Doctor, that what we need to do is to focus on education and make sure that in this country we are preparing to have young people in the pipeline, making sure that we are providing on the front end the kind of education that they will need in order to fill all of the colleges and universities and come out with the engineering degrees and those other things that will be able to help create the kind of innovation that we need.

My son is a senior in high school and he wants to be an engineer and last weekend we were working on his applications for various schools. But we as a country do not focus on what we need to focus on. We are not putting the resources where they need to be.

At the very beginning of the education process, creating the kind of opportunities early on, exposing our young people, children to the opportunities that they would have in terms of research and development and different career paths and women and minorities being able to have those opportunities to grow this economy and to be placed in those positions, whether it is here in this country or overseas, but particularly in this country because companies are going to vote with their feet.

They are going to look for locating in areas where there is a well trained, well educated, multilingual work force and if they do not find it in Georgia, where I live and in other states, then they are going to look elsewhere and find those individuals to be able to do the work that they need for them to do.

So I am certainly for square in favor of putting the resources, the human resources, making that kind of investment on the front end, with full funding for Head Start, with full funding for Leave No Child Behind, with doing the kinds of creative things and figuring out what are the needs in particular communities? How are we going to make sure that we are providing that basis, that educational foundation upon which everything else that we seek to do as a community and as a nation must be founded.

Ms. MILLENDER-MCDONALD. I would like to also echo what my colleague has said and to really commend you, Doctor, for your sensitivity.

As the outgoing Democratic chair of the Women's Caucus of the House and as former Director of Gender Equity, I have tried to push women, because your work force over the next couple of decades will be the majority women.

It is so important that you do that, but there is a culture that has to be changed. People tend to not think women can and so they are the last hired and the first fired.

I think that culture has to come with also the education of women, because after all, if you are going to have a work force that mirrors that of women, you have got to put them in educational programs that will position them for those jobs that will be critical to us as we begin to pull our jobs back from China and Taiwan and other places into the United States.

So I will say to you I really applaud you for your sensitivity and also what Paul has said too, because I am looking for Molly Brogan. Is she here? Yes, Molly. Because I had a Congressional hearing with my Chairman of the Subcommittee in trying to look at small businesses get some type of assistance for exporting their businesses overseas.

I mean it seems like that is the going thing and so if that is indeed the problem or the concern, then we need to have small businesses getting into the pipeline of exporting their businesses overseas. I am interested in knowing what are we doing for that as well.

Chairman MANZULLO. Let me go to Mr. Schrock and then Matt and then Frank.

Mr. SCHROCK. Yes, let me just make a couple comments. I love the comment that Ms. Millender-McDonald said. You know my wife, who does not get involved in politics and says very little, says to me, when you want to find the best man for the job, send a woman. So do I. You know I think some of these situations that we are talking about and of course it is easy for me to say, I have only been here three years, were treated right here. Right in these three buildings. The three buildings on the other side of the Capitol and voted on the Capitol.

We have created this mess we are in right now and it is incumbent upon us to try to undue some of that. But boy once things get into law, it is murder to try to untangle that stuff and every time I question some of these things, people say to me, well they are trade laws that we created. Why in God's name did we create them in the first place? And if we created them, can't we undo them? Why can't we do that?

There is just talk and talk and talk and nothing more than that. An Act of Congress. I know we say that, but it never gets done and if we don't, these people are going to die on the vine out there.

Chairman MANZULLO. Okay. Matt and then Frank.

Mr. COFFEY. Okay. I want to follow up on the human resource question. I hope that in your thinking about human resources and education and training that you do not stop at somebody getting an academic degree.

The fact is that the future of manufacturing in the United States depends upon lifelong learning by everyone who works in the company and if you are not considering doing something for the incumbent work force, you are in fact placing the businesses at a disadvantage.

Ms. MILLENDER-MCDONALD. Here, here.

Chairman MANZULLO. Frank and then Bill.

Mr. VARGO. Mr. Chairman, let me just bring in an element of good news here, because we have been talking about all the problems and there are a lot of problems.

Several things have been done right. One of them was the administration a little over a year ago saying, you know, our currency should be set. The value should be set by the marketplace, because everybody knew it was overvalued.

What that did was to send a very strong signal to the financial traders in New York and in other financial centers that the Treas-

ury was not going to intervene to prevent the dollar from going back to where it ought to and it has started to move down.

February 2002, Mr. Chairman, the dollar had gone up 30 percent from where it had started in 1997. That is like putting a 30 percent tax on our exports and a 30 percent subsidy on our imports.

With the currencies that are free to float today, we are only up four percent over where we started and so we are basically back and that is going to pick up 100, $150 billion in trade for us, just what has happened so far.

Certainly the Asian countries, Chinese currency and others, they are being prevented from moving and that is why we have been putting a focus there, but we are going to see, certainly by early next year, the result of what has already happened with the European and Canadian and other currencies.

Chairman MANZULLO. Bill?

Mr. GASKIN. My comment really was related to the interest in training and developing skills and supports what Matt said. His organization and mine and many others in the room have developed skill standards and curriculum and training systems for technical workers, high skilled craftsmen over the last five, ten years, responding to the demand in the 1990s when it was hard to hire a tool and dye maker. It was hard to find people. Now we are in a different situation. There is a surplus.

You know, we are the result. Our current generation is coming out of schools and in their 20s and probably 30s, have been brainwashed into thinking that manufacturing is dirty, dark, dangerous and dead-end.

Chairman MANZULLO. And oily.

Mr. GASKIN. Yes, it is not where you want to be. Semiconductors excepted, they know those are clean rooms because they see them on TV.

But if it is manufacturing the way a lot of people think about it, it is dirty, dark, dangerous and dead-end. You do not want your kid going there.

So what have our guidance counselors done for the last 20 years? You know it is college and out. It is not getting people into the trades and to skills. I am not suggesting we can go backwards into the traditional apprenticeship programs, but we need to have a reversal of the brainwashing and we need some money probably.

Probably some billions to create a new vision for manufacturing in this country. A PR program, as it were, to help people realize that there are good jobs, good careers, life long learning careers. You may start out in a manufacturing position. You may become an engineer, if there is any of that left in this country. You may become the owner some day. It is that career path that people are looking for at any age.

I just offer another possible solution. How about some Congressional money for retraining us as a society? I think that we need to do that.

Chairman MANZULLO. Then that adds to the debt and that makes it worse. Currently the only money that we have has been displaced as a result of NAFTA or something like that.

Mr. GASKIN. We need to create a new vision I think, because we have been brainwashed to think that manufacturing is not good in this country.

Chairman MANZULLO. When I was in Milan last week, a constituent was there, Bernie Bowersock. Runs a place called North American Tool, 89 employees, and he had a very expensive corner booth in Milan. That is his name, Bowersock.

Mr. SCHROCK. Love his name.

Chairman MANZULLO. Some people would say that Schrock is a funny name.

Mr. SCHROCK. I deserve that.

Chairman MANZULLO. Yes. But I said, how are you doing it? A couple of things. He sells taps all over the world and he said, I can give 24-hour service worldwide. I have the fastest service of anybody in the world. He has 89 employees.

The second thing was absolutely stunning. He said, Don, by the way you know the conventional tap is being replaced by a new milling product. I said, what are you talking about? He said, well the conventional tap, a tap is used to put threads into a block of steel so you can screw something into it and a tap itself looks like a long screw.

So you put it on a spindle, which is like a chuck on a drill and then you go very slowly down into the metal and then you bring it back up again and you form the thread.

He said, now let me show you the new process for this. Who would ever think that a tap would be replaced? He said, the tap you make the hole is just a little smaller than what the tap will be itself.

He said, in the milling process, you make the whole a little bit bigger than your mill. It is a short stubby thing. It gets put on a spindle. It goes [makes noise]. I looked at that and he said, now what I am doing is I am looking at the day when these taps will be replaced by this new type of a mill bit. I mean some extraordinary science is going on there.

He was looking around the corner, looking to see where he is going to take his manufacturing firm, refusing to give up in the light of the stiff competition that is coming in.

Let me share one other thing. This is some really good news. We had a hearing several months ago, on June 4, with several people from the Department of State, FBI and Homeland Security and BOINS, for the reason that it is very difficult to bring in people from two or three countries, to look at machinery even though it is not subject to a validated export license, four head machines for example and our government considers everybody from India and everybody from China to be a terrorist.

These people want to come here and buy our stuff. I mean they want to come in here because they are really excited in buying the things that we are making. We decided at that time to meet periodically and Matt Szymanski, who is the Chief of Staff of our Small Business Committee, has been working with them on a periodic basis.

We are at the point now where man I do not know all these eight points that you are giving me here, but this one right here? We cannot explain it. Then I cannot read it.

I am not going to read all of it, but the bottom line is that we are seeing some extraordinary, not extraordinary, we are seeing a lot of cooperation amongst some extraordinary people that are involved in our government that really understand that issue.

I mean we want to sell stuff, but we cannot bring over the people that want to buy it. But as a result of that hearing, I think we are pretty close to, I do not want to call it a business class visa where you have a multiple entry that would last a year or so, but this is one of the things that we can do. We can move very, very quickly on it.

We are out of time.

Ms. MILLENDER-MCDONALD. Mr. Chairman, may I just say one thing?

Chairman MANZULLO. Yes, of course.

Ms. MILLENDER-MCDONALD. In a meeting that I had today looking at possible increased funding for our transportation infrastructure that is sorely needed for all of you who are business people, it was said to me that the Ports of Los Angeles and Long Beach get so many cargo containers coming in, my God it is going to quadruple over the next ten to 15 years, but we have no cargo going out.

Chairman MANZULLO. That bothers me.

Ms. MILLENDER-MCDONALD. And that is the telling thing. Those containers are not being filled here to go back, but we are getting them by the loads coming in from China and other places.

I think with that we need to look at some innovative things that we can do to help you to help us, because we are looking at things outside of the box on funding for transportation that we know we have got to do in order to make the infrastructure work best for you as you transport your business across this country.

Thank you so much for this meeting.

Chairman MANZULLO. Thank you very much. I want to thank each of you for participating. It is great to have these ideas that we get all over the place. It gets everybody thinking of is there one thing that we can do easily to help the manufacturing sector going on? That I consider to be a breakthrough in getting the visas and that is across the board. Bipartisan, regardless of even your position and trade. Thank you all for coming. I appreciate you taking this time and our roundtable is adjourned.

[Whereupon, at 4:05 p.m., the Committee meeting was adjourned.]

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