

Strengthening the Manufacturing Supply Chain

PART OF THE NAM AMERICAN RENEWAL ACTION PLAN

To read our full plan, click [here](#).

Across America, the men and women of the manufacturing industry have stepped up to lead our country through the COVID-19 pandemic response, and the industry is committed to supporting our recovery and long-term renewal. The health and economic crises that we face are unlike anything witnessed in modern history. We know we can build a more prosperous future, but that demands decisive action and bold thinking.

Strengthening the modern manufacturing supply chain is a core part of the path forward, as laid out in the National Association of Manufacturers' "American Renewal Action Plan." Growing the manufacturing base in the United States and onshoring production is vital not only for America's economic strength and job creation but also to prepare for future health crises.

Lawmakers and the administration must act swiftly on these recommendations, to incentivize and catalyze change and to lay the foundation for a renewed modern manufacturing industry in America and a stronger, healthier nation.

CREATE NEW INCENTIVES TO SUPPORT THE ONSHOREING OF MANUFACTURING ACTIVITIES

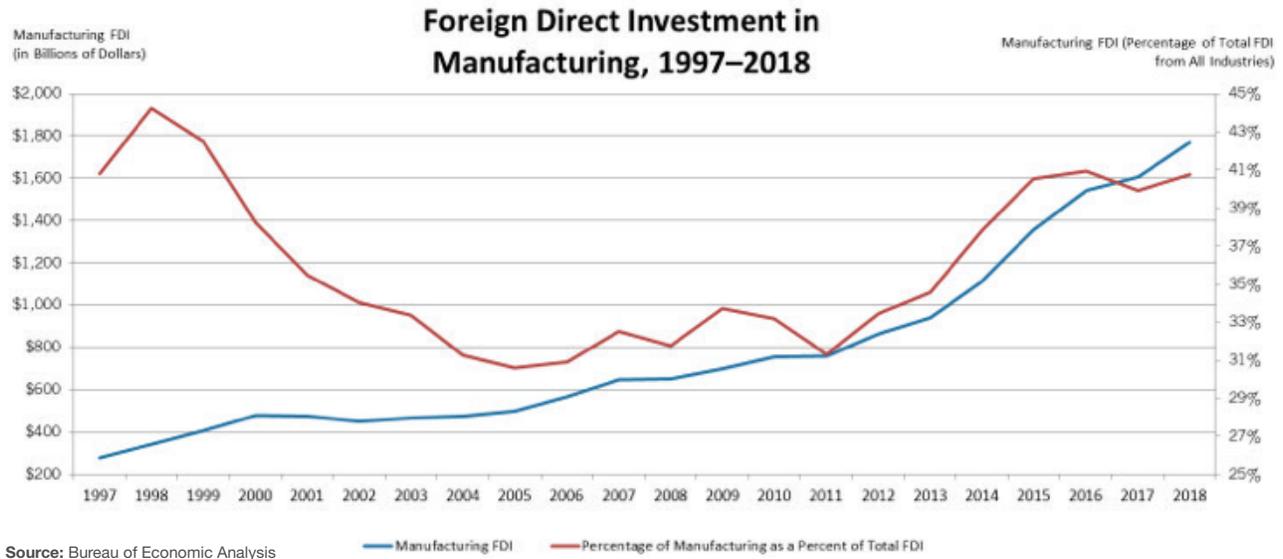
Adopting policies that grow the U.S. industrial base will result in more American jobs, increase GDP and bolster our national security. Targeted incentives will make the U.S. more attractive for manufacturing investment. A **new tax credit** that encourages companies to make domestic investments in manufacturing is one such tool. The key elements of an effective credit are as follows:

- **Broad applicability**—The credit must be available to all companies that invest in manufacturing activities in the United States, irrespective of the current location of their operations or place of organization. Any expansion of the U.S. industrial base should be encouraged.
- **Stimulate new investments**—Investments in workforce, machinery, equipment and innovation are key to the long-term success of manufacturing. To encourage onshoring, the credit must be equal to 16% or more of these costs.¹
- **Seamless integration into existing law**—To be effective, the credit must be as simple as possible to calculate, easy to claim and complement existing tax incentives that are available to all manufacturers, irrespective of size or form.
- **Time-limited**—The credit needs to be available for a limited period to encourage immediate investment in America. Specifically, the credit should be applicable to investments made in the next five years.

¹ A forthcoming study by KPMG and The Manufacturing Institute analyzes the primary costs (compensation, property, utilities, taxes and interest rates) associated with manufacturing, finding that U.S. costs are on average 16% higher than a peer group of countries.

Foreign Investment Is Important to American Manufacturing

Foreign direct investment is increasingly important to the growth of American manufacturing. In 2018, manufacturing workers accounted for nearly half of the 430,000 Americans employed at new or expanded foreign-owned businesses in the United States.



PROVIDE INCENTIVES TO HELP COMPANIES RECRUIT, TRAIN AND RETAIN SKILLED WORKERS

One of the key challenges facing manufacturers is access to a skilled workforce. The industry suffers from a “skills gap,” in which too many Americans lack the specialized training necessary to immediately step into a modern manufacturing job. One recent study by Deloitte and The Manufacturing Institute, the workforce and education partner of the NAM, found that more than 2.4 million U.S. manufacturing jobs would go unfilled from 2018 to 2028 due to this skills gap and retirements.² While that number will likely be reduced in the aftermath of the current crisis, it will not be eliminated because those who are unemployed will still not possess the necessary skills. To encourage onshoring, policymakers should take steps to build a pipeline of workers with the skills needed to operate a modern manufacturing facility. Without these policies, the U.S. will lack the manpower needed to grow the manufacturing base, keeping potential American jobs offshore.

Accordingly, measures to increase investment and job creation in manufacturing in the United States must be accompanied by policies that expand the pool of skilled workers and assist companies in attracting and retaining talent. In the fierce competition for skilled domestic labor, these incentives will help ensure that manufacturing is the job of choice for a new generation of workers.

A reduction in costs associated with training is a key incentive that policymakers can offer to quickly build a pipeline of skilled U.S. workers. The Manufacturing Institute recommends two tax law changes that would immediately reduce these costs:

² Deloitte and The Manufacturing Institute, Skills Gap and Future of Work Study (2018), available at http://www.themanufacturinginstitute.org/~media/E323C4D8F75A470E8C96D7A07F0A14FB/DI_2018_Deloitte_MFI_skills_gap_FoW_study.pdf.

- First, high-quality earn-and-learn models are essential to staff new manufacturing facilities effectively. To defray the costs associated with these programs, new deductions should be put in place for items such as the initial set-up costs, cost of wages for learners and trainers and other direct costs associated with these programs.
- Second, employees should not be penalized for investments that employers make in their skills. Existing guidance in Internal Revenue Code Section 127 only allows for \$5,250 of **educational assistance** to an employee to be excluded from an employee's gross income. This amount should be adjusted to \$11,500 to increase participation in approved training programs.³

On-the-job training will help reduce the skills gap, but a rapid onshoring of activity will require manufacturers to quickly get workers into jobs. To ensure that the industry can attract the number of workers needed to fuel an expansion of the U.S. industrial base, new policies to reduce the financial burden on employers need to be adopted:

- Lawmakers can **temporarily reduce the employer's share of the payroll tax** by at least 25% for the first year of a newly hired manufacturing worker's employment.
- Policymakers should create a **new federal fund** of at least \$3.1 billion per year, for two fiscal years, **to help manufacturers reduce the cost of providing health care and retirement benefits** to workers. This amount assumes that the manufacturing workforce grows by 20% as a result of onshoring. With that level of growth, \$3.1 billion represents federal assistance of 10%, meaning the employers would pay 90% of benefit costs for newly hired manufacturing workers.⁴

This aid would help reduce the cost of new investments and act as an incentive to onshoring manufacturing. This assistance should be narrowly tailored to aid recently constructed, upgraded or expanded facilities that increase their manufacturing workforce and limited to benefits payments for new workers. Enacting these policies will reduce the costs associated with locating a new investment in the United States and allow manufacturers to continue providing generous wage and benefit packages to American workers.

ENHANCE AMERICA'S SUPPORT FOR INNOVATION

Innovation is the lifeblood of the manufacturing industry. New technologies, materials, products and processes drive the industry forward. To make America a competitive location for onshoring, policymakers must make a strong federal commitment to innovation.

The importance of research to manufacturers cannot be overstated: the industry accounts for 63% of all U.S. private-sector R&D, spending more than \$271.3 billion in 2018.⁵ Yet, the U.S. lags far behind others in incentives for private-sector R&D, ranking 26th among advanced economies for R&D tax incentives.⁶ In the competition for industrial investment, other countries have recognized the importance of research and have moved aggressively to encourage these high-value activities to relocate within their borders. For example, the Chinese government has committed hundreds of

³ Bipartisan legislation has been introduced in the House of Representatives that would implement this policy (H.R. 4849).

⁴ In 2018, manufacturers spent \$155.8 billion on health and retirement benefits. If we grow the manufacturing sector through onshoring by 20%, manufacturers would spend an additional \$31.2 billion per year in benefits payments.

⁵ Bureau of Economic Analysis.

⁶ Ernst & Young, Impact of the Amortization of Certain R&D Expenditures on R&D Spending in the United States (October 2019), available at <https://investinamericasfuture.org/wp-content/uploads/2019/10/EY-RD-Coalition-TCJA-R-and-D-amortization-report-Oct-2019-1.pdf>. (EY Report)

billions of dollars to directly boost innovation.⁷ Alarming, the U.S. tax incentives for research are scheduled to shrink significantly, exacerbating the disparity and making it less likely that companies will onshore.

Beginning in 2022, companies will no longer be allowed to immediately deduct their R&D spending. Instead, they will be required to deduct their spending over a period of years, making it more expensive to undertake research. Economists have predicted that this change will cost tens of thousands of U.S. jobs over the next decade and reduce R&D spending by billions of dollars each year.⁸ To ensure that America is the most attractive place in the world to start and grow a manufacturing business, lawmakers should **immediately reverse this policy**.⁹ There is an urgent need to fix this issue as significant research investments are often approved years in advance. Accordingly, the longer America waits to reverse this policy, the more likely it becomes that investments in innovation are either foregone or driven abroad. In addition, lawmakers should **simplify the R&D tax credit as well as expand its applicability** to other job-creating activities related to R&D. Moreover, the U.S. government can ensure that America remains an attractive environment for R&D by taking a **strategic and tailored approach to controls on exports** to maintain both our security and competitiveness goals. This way, U.S. manufacturers can continue our nation's leadership in innovative technologies and compete on a level playing field in the international marketplace.

The NAM believes that America should establish a revolving **\$1 billion public-private investment vehicle** to provide funding and financing to companies of all sizes **to support research into advanced manufacturing technologies**. This fund would support domestic innovation by requiring U.S.-based workforce and production for development of new technologies and ensuring U.S.-backed IP protection for innovation.

Companies conduct a vast amount of R&D in the United States.¹⁰ They use U.S. intellectual property laws and U.S. courts to protect and defend new ideas and valuable innovations, but global market factors lead companies to manufacture the products elsewhere. We can make the United States the country where companies want to both develop new ideas and manufacture the resulting products. Federal policies should use our strengths to offset those global market factors. In particular, lawmakers must create and fund a **program to speed the delivery of valuable patent rights to companies that agree to conduct the operations for their innovative ideas in the United States**. There is currently a backlog of more than 550,000 applications at the U.S. Patent and Trademark Office.¹¹

⁷ See James McBride and Andrew Chatzky, Is “Made in China 2025” a Threat to Global Trade?, Council on Foreign Relations, available at <https://www.cfr.org/backgrounder/made-china-2025-threat-global-trade>.

⁸ See EY Report, supra.

⁹ Members of the U.S. House Committee on Ways and Means have introduced bipartisan legislation (H.R. 4549) to address this issue.

¹⁰ As of 2016, the U.S. remained the world's single largest funder of R&D at \$511.1 billion, which is more than 28% of the global total. Congressional Research Service, The Global Research and Development Landscape and Implications for the Department of Defense (updated Nov. 18, 2019), available at <https://fas.org/sgp/crs/natsec/R45403.pdf>. The 2019 Global Innovation Index ranks the United States as third globally based on innovation capabilities, citing strengths in R&D and the presence of R&D companies. World Intellectual Property Organization, Global Innovation Index 2019: the United States of America (July 2019), available at https://www.wipo.int/edocs/pubdocs/en/wipo_pub_gii_2019/us.pdf.

¹¹ See U.S. Patent and Trademark Office, FY 2019 Performance and Accountability Report, available at <https://www.uspto.gov/sites/default/files/documents/USPTOFY19PAR.pdf>.

ENSURE THAT BUSINESS LOANS AND CAPITAL EQUIPMENT PURCHASES REMAIN AFFORDABLE

Small and medium-sized companies comprise the backbone of the supply chain and are critical to a vibrant manufacturing sector. Policies that encourage domestication of manufacturing activities will likely require an expansion of domestic supply chain capacity. Small American manufacturers must be ready to expand their facilities, hire more workers and upgrade their machinery. Yet, looming tax law changes will make these required investments more expensive.

Small and medium-sized manufacturers are typically not publicly traded and must borrow funds to invest and grow. Currently, companies may deduct a portion of the interest paid on business loans. This deduction is limited to 30% of a company's earnings before interest, tax, depreciation and amortization (EBITDA). Beginning in 2022, an EBIT standard takes effect. This change will burden manufacturers disproportionately. By necessity, the industry invests heavily in depreciable equipment and machinery as well as amortizable assets, such as patents, formulas, licenses and trademarks. Excluding the depreciation and amortization associated with these investments from the base upon which the maximum interest expense is calculated will result in fewer deductions, making it more expensive for small and medium-sized manufacturers to make critical investments in their businesses.

Similarly, a tax change that will take effect in 2023 will reduce—and ultimately eliminate—the benefit of “bonus depreciation,” a policy that allows purchasers of machinery and equipment to deduct the cost of the item immediately. Accelerating the tax benefits associated with investments in the property needed to manufacture goods can dramatically reduce the cost of acquiring new machinery and spur investments in more efficient technologies, particularly among small and medium-sized companies.¹² When bonus depreciation expires, the cost of capital investments will be deducted in smaller amounts over a longer period of time—immediately increasing the after-tax cost of purchasing machinery and equipment necessary to fuel manufacturing growth.¹³

When these policies take effect, they will create an incentive for manufacturers to produce goods overseas, rather than in the United States. Congress and the administration must work together to pass **legislation to prevent these tax law changes from occurring** and avoid the resulting decrease in domestic investment.

OPEN THE FEDERAL GOVERNMENT'S PORTFOLIO OF SURPLUS PROPERTY TO MANUFACTURERS

Facilities costs are among the key factors in deciding where to locate manufacturing activities, and yet the cost of acquiring property suitable for industrial development is higher in the United States than in other advanced countries.¹⁴ The federal government has tools at its disposal to directly reduce these costs, which could help spur investment in new factories and, in turn, create new

¹² In a 2018 economic study, the Tax Foundation found that making bonus depreciation permanent would grow the economy by 0.9% and create 172,300 additional full-time equivalent jobs. Tax Foundation, The TCJA's Expensing Provision Alleviates the Tax Code's Bias Against Certain Investments (Sept. 5, 2018), available at <https://taxfoundation.org/tcja-expensing-provision-benefits/>.

¹³ Legislation has been introduced in the Senate (S. 3296) and House (H.R. 6802) that would make bonus depreciation permanent.

¹⁴ A 2016 KPMG study examining a limited pool of advanced economies found that industrial land acquisition costs were lower in France, Canada and Mexico than in the United States. KPMG, Competitive Alternatives (2016), available at <http://mmkconsulting.com/comparis/>.

jobs. Specifically, the General Services Administration maintains a portfolio of government-owned unused property and already has in place a framework that can be utilized to transfer this property to industry at reduced costs.

While the GSA's process for disposing of federally owned real estate is straightforward, it is often quite lengthy.¹⁵ If a federal agency needs property, it can receive a transfer of the asset from GSA. If no federal agency expresses a need for the real estate, however, GSA, through the Public Benefit Conveyance Program, is authorized to transfer property to certain public entities and nonprofits, such as state and local government, for discounts of up to 100% for certain uses that are authorized by statute.¹⁶

To encourage investment in factories and new jobs, policymakers need to **authorize state and local governments to sell the property**—for the discounted rate at which it was acquired—**to companies that agree to construct manufacturing facilities on the land or use the property for manufacturing purposes.**

Moreover, to speed the delivery of these assets, federal agencies can identify and **publicly list all available property useful for manufacturers** (e.g., land, warehouses, office space, labs) and identify ways to streamline the sale of these federal properties.¹⁷ In addition, agencies should work to **identify underutilized federal real property sites suitable for public-private partnership opportunities** and expedite the review of such agreements.¹⁸

The NAM believes that these programs should be open to all companies that seek to build manufacturing facilities in the United States, including companies that already operate domestically as well as those that seek to move production to America.

ANNUALLY REVIEW U.S. COMPETITIVENESS

More than 30 years passed between the Tax Reform Act of 1986 and enactment of the Tax Cuts and Jobs Act. In the intervening decades, our tax code became a drag on American businesses. Prior to enactment of the TCJA, our high corporate tax rate and outdated model for taxing income earned abroad created a strong incentive to keep earnings overseas and in fact caused some companies to flee America.¹⁹ Similarly, since the modern U.S. federal regulatory state was born in the 1930s, regulations have accumulated year after year at an increasing pace, imposing costs on firms of all sizes and across all industries. Some credible analyses have estimated that the U.S. economy would

¹⁵ From January to Sept. 30, 2019, only 138 public sales of federal real property took place. See General Services Administration, FY 2019 Performance Overview: Office of Real Property Utilization & Disposal, available at <https://disposal.gsa.gov/s/whatwedo>.

¹⁶ The PBC program requires GSA to prioritize certain public uses, such as addressing homelessness, before the agency can sell to states and local governments.

¹⁷ For example, the Federal Assets Sale and Transfer Act (Pub. Law No. 114-287) provides an expedited route for the government to dispose of certain properties and requires agencies to develop lists of disposal recommendations. This provides a model upon which the federal government could build a manufacturing-focused program.

¹⁸ A 2016 GAO document indicates that public-private partnerships may be an underutilized tool available to speed the distribution of property. Government Accountability Office Letter to Sen. Ron Johnson and Sen. James Lankford, Federal Real Property: Public-Private Partnerships Have a Limited Role in Disposal and Management of Unneeded Property (Aug. 30, 2016), available at <https://www.gao.gov/assets/680/679352.pdf>.

¹⁹ See, e.g., Congressional Budget Office, An Analysis of Corporate Inversions (September 2017) ("Tax rates and other provisions in the tax system influence multinational corporations' choices about how and where to invest, particularly as corporations assess whether it is more profitable to locate business operations in the United States or abroad.").

be 25% larger if regulatory burdens had remained constant since 1980.²⁰ The recent focus on right-sizing the regulatory regime helps reverse this trend.

The NAM believes that the policies in this plan, if adopted, will make the U.S. a more attractive place to start and grow a manufacturing enterprise. However, other nations will respond with policy changes of their own. America should protect its industrial base by ensuring that our national policies are the most competitive in the world. That will require **an annual report on the relative burdens imposed by the U.S. tax and regulatory regimes**. This review should be conducted by the Department of Commerce and include recommended policy changes to enhance U.S. competitiveness. These changes should be afforded **expedited congressional consideration**.

HARMONIZE SUSTAINABLE PERMITTING

America has established a strong track record in environmental protection; growth in the U.S. industrial base as a result of onshoring should be consistent with these protections. Onshoring manufacturing supply chains that currently lack a domestic presence requires a renewed focus on sustainability that modernizes all levels of permitting. However, it currently can take years to obtain regulatory approvals for investments in certain manufacturing sectors—far longer than in other advanced countries. While well intentioned, this complicated, multilayered permitting regime acts as a significant barrier to developing new industries in America and a disincentive to onshoring. U.S. policymakers can modernize and strengthen permitting by encouraging early engagement and open collaboration among permitting authorities, as well as taking steps to speed the delivery of permits while at the same time continuing to protect our environment.

To further harmonize our environmental needs and economic challenges, Congress should take steps to promote early engagement and open collaboration between stakeholders and federal, state, tribal and local permitting authorities:

- Providing \$300 million in additional resources to assist states, tribes and localities in addressing staffing and resource constraints to accelerate project delivery
- Increasing funding for permit processing, assistance and approval by at least 25% at federal agencies

Onshoring manufacturing requires first establishing basic infrastructure—from water and energy delivery to transportation—before ground can ever be broken on a major facility. Obtaining permits for these items can take years, especially when reviews are piecemeal. Immediate action can be taken, utilizing existing authority and without weakening reviews, to reduce the time necessary to obtain permits and set the stage for onshoring. Congress established the Federal Permitting Improvement Steering Council four years ago to coordinate permitting activities among agencies and stakeholders.²¹ FPISC simply facilitates concurrent reviews; it does not eliminate required environmental reviews. The following steps should be taken for the streamlined, job-creating tools of FPISC to serve as powerful incentives in the global battle for manufacturing investment:

²⁰ See Bentley Coffey, Patrick A. McLaughlin and Pietro Peretto, *The Cumulative Costs of Regulation*, Mercatus Center (2016), available at <https://www.mercatus.org/system/files/Coffey-Cumulative-Cost-Regs-v3.pdf>.

²¹ As an initial matter, Congress should reauthorize and fully fund the FPISC.

- The President should issue an executive order that:
 - Reaffirms the FPISC’s existing authority to oversee and coordinate with all applicable agencies and levels of government to identify, prioritize and set timelines that avoid unnecessary delays;
 - Empowers the FPISC, in partnership with states, to align overlapping and conflicting federal and state environmental review and permitting processes;
 - Reprograms existing federal resources to fully fund the FPISC’s environmental permitting support; and
 - Directs the FPISC to identify large-scale critical infrastructure projects, with demonstrated short-term high economic impact, as “covered” projects, across a broad range of infrastructure sectors, including manufacturing.

AMERICAN RENEWAL

The time to act is now. America’s recovery and renewal following the COVID-19 crisis will be a long journey. Policymakers must prioritize strengthening the manufacturing supply chain, and taking these steps, alongside the rest of the NAM’s “American Renewal Action Plan,” is the way to do so successfully. The work can begin today, laying the foundation for a stronger, more prosperous America.