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BLOG POST

Post-Election Update: Manufacturing

November 23, 2012

By: **Paul Nathanson**

Manufacturing could be called the "comeback player of the year" in Washington, D.C. Both Governor Romney and President Obama stressed support for the manufacturing sector during the presidential campaign. President Obama mentioned the word "manufacturing" 16 times in his most recent State of the Union address in January 2012 compared to zero times in his first address in 2009. In the last Congress, 184 legislative bills related to manufacturing were introduced in the House and Senate.

There is a good reason why the Administration and Congress have been, and will continue to be, focused on manufacturing. U.S. manufacturers are reporting slow but steady growth as a result of an improving economy. In addition, the weak dollar and companies "reshoring" production back to the U.S. from China and other countries are also having a positive impact on the sector.

While the national unemployment rate is 7.8 percent, there are an estimated 600,000 job openings for skilled workers in the U.S. manufacturing sector. In summary, after being left for dead by many in both political parties only a few years ago, manufacturing has become a central part of the conversation when it comes to growing the U.S. economy and creating jobs.

Both large and small manufacturers have a common complaint about Washington, D.C. that hinders their recovery: uncertainty. Like other businesses, manufacturers want stability. Instead, what they have seen from Washington over the past several years is uncertainty on issues ranging from taxes to regulations.

In general, those interested in manufacturing can expect the following issues to be hotly debated in Washington during the lame duck session and in 2013:

- **Sequestration** - Not surprisingly, manufacturers like other sectors will closely watch to see if Congress and the President can avoid sequestration - the $1.2 trillion in automatic spending cuts over ten years that are split nearly evenly between defense and non-defense spending. The cuts will automatically take place starting January 1, 2013 unless a deal is reached. These automatic spending cuts would not only devastate manufacturers in the defense industry. The entire manufacturing sector would be devastated by cuts in defense, construction projects, infrastructure investment and job training.

- **Taxes** - Unless Congress acts, $5.4 trillion in tax increases will take effect on January 1, 2013. There are many tax extenders and incentives that are currently utilized by manufacturers that have expired or are set to expire. The uncertainty caused by the annual review of these extenders impacts decisions to hire more workers and make new capital investments. Eighty percent of manufacturers are pass through (S-Corporations) and pay taxes at the individual rate. Tax reform will involve eliminating tax credits and exemptions in return for lower tax rates. Congress will need to tackle the issue of lowering rates for all manufacturers, whether a C Corporation, S Corporation, Partnership or other pass through entity.

- **Job Training** - The manufacturing sector has an estimated 600,000 job openings for skilled workers across the U.S. today. Manufacturers cannot find enough qualified workers to fill these positions. And it is only going to get worse – approximately 2.7 million manufacturing workers are expected to retire in the next decade. The problem results from a combination of an aging workforce and the difficulty in finding younger workers with the appropriate skills to replace them. Elementary and high schools have eliminated manufacturing technology programs and high schools are judged by how many students attend college – not vocational schools. With the renewed emphasis by both political parties on manufacturing, look for Congress and the Administration to look to expand job training and recruitment programs for the manufacturing sector.

- **Regulations** - The federal regulatory agencies that most impact manufacturers include the Occupational Safety and Health Administration (OSHA), the Environmental Protection Agency (EPA) and the National Labor Relations Board (NLRB). Manufacturers have experienced a more activist role by all three agencies during President Obama's first term and more of the same could be in store during the next four years. Given the role that unions played in helping President Obama get reelected, renewed efforts may be made on pro-union legislation. However, with a Republican-controlled House of Representatives, it is likely that unions will continue to look to the NLRB for regulatory changes aimed at boosting union membership.

- **Trade and Enforcement** - As covered in our trade brief, the U.S. is expected to continue to bring cases before the WTO against China. President Obama touted his commitment to pursuing trade enforcement actions during his campaign, and one can expect to see a continuing commitment to antidumping and intellectual property actions over the coming years. However, it is not likely that legislation to punish China for currency manipulation will pass Congress anytime soon. A bill passed the Senate last year but died in the House. With President Obama's reelection, it is likely he will continue to rely on diplomatic efforts over legislation on this issue. Look for the Administration to also continue its efforts to increase exports and open markets.