

Dennis Cuneo on The Future of American Manufacturing

I am honored to be part of this distinguished panel, and I'm here today in two capacities. First, I'm representing the National Association of Manufacturers (NAM). For those of you who don't know what NAM is, it's the largest industrial trade organization in America. It represents about 14,000 companies, and those companies collectively account for about 85% of America's industrial output. And then I'm here in my capacity as a Senior Vice President of Toyota. You may know Toyota for the products we produce, but what you may not know is we're the fourth-largest auto manufacturer in America, and we have a serious stake in the future of manufacturing here.

When I checked in the hotel last night, I recall that it was 40 years ago that I paid my first visit to Washington, D.C. I grew up in a small town in the hills of western Pennsylvania. I was a patrol boy. We came here to march in—I think it was a cherry blossom parade. We stayed in this very hotel, four to a room. I remember paying 25 cents for a glass of Coca-Cola and being outraged at how expensive things were in Washington, D.C. That was 15 cents more than you paid in Ridgeway, Pennsylvania! Forty years ago, there weren't any Japanese companies producing vehicles in this country. In fact, forty years ago, you would have been hard-pressed to find a Japanese vehicle on the road. Back then, I never would have imagined that forty years hence I'd be in the same hotel speaking to a distinguished group of economic development officials on C-SPAN as the Senior Vice President of a Japanese automaker who now employs over 31,000 people here. The world has changed. Manufacturing has changed. And what I hope to do is talk about some of the challenges that we see in the manufacturing community in North America.

Manufacturing is one of the bedrocks of our economy. It's an engine of economic growth. It drives productivity. It provides jobs with high wages and benefits. And it stimulates innovation. Manufacturers make things. We create wealth. We create jobs. Let me share some statistics to back that claim. Over the last decade, manufacturing contributed more than one-fifth of overall economic growth at 22%. Since 1980, manufacturing productivity in America has doubled at a rate much faster than the economy as a whole, and those productivity improvements enabled the low inflation economy that we enjoyed over the past decade. Manufacturing jobs pay about \$54,000 a year when you add in wages and benefits. That's about 20% higher than the average compensation in the United States.

In addition to better pay, manufacturing is a tremendous job multiplier. There are about 15 million Americans who work directly in manufacturing, but an additional 8 million people working in sectors whose jobs depend on manufacturing, bringing that total to about 23 million. In some sectors like auto manufacturing, the multipliers are much higher. Manufacturing is a source of most of the private sector R&D in this country. Our contribution to research is much higher than our contribution to the overall GDP. I've given you a brief macro view of manufacturing, let me now give you a specific example, which is the company I work for, Toyota, which over the past 18 years has grown into the fourth-largest auto manufacturer in this country.

Eighteen years ago, when I first started with Toyota, every vehicle we sold here was made in Japan. Today most of the vehicles we sell here are made here. Since 1986, our investment in the United States has grown to over \$14 billion. That includes ten manufacturing plants, and last year we produced over a million vehicles here. We're boosting the economy and in the states where our plants are located and where our

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dealers and suppliers are located. We directly employ 31,000 Americans, but that's only the tip of the job creation iceberg. Together with our suppliers and dealers, we create over 180,000 American jobs. Beyond the states where we have our manufacturing facilities, our growth impacts most other states as well. We purchase parts and components from 500 suppliers located in 36 different states. When you add in goods and services, we do business with over 10,000 businesses located across the U.S. Over the past eight years, our purchases in North America have tripled from 7 billion to \$22 billion. Let me put that figure in context. Our purchases in the United States are greater than the revenues of such companies as Oracle, 3M, Kodak, and Coca-Cola.

In addition to our manufacturing and supplier footprint, we have sales facilities in 22 states, R&D facilities in three states. Design facilities in two states, financial services in 14 states, and dealers -- 1,400 dealers in all 50 states. Think about a dealer. On average, they employ 70 people, from salespeople to skilled service technicians. Each dealer pays taxes, buys advertising in the local media, and supports numerous local charities and organizations. The job figures of those dealers don't count as manufacturing jobs, but they depend upon manufacturing jobs.

Toyota's growth in North America and the U.S. continues. In 1996, we created a North American manufacturing headquarters in the northern Kentucky suburb of Cincinnati. And since that time, in the past eight years, we built a new assembly plant in Indiana and expanded it twice. We built a new engine plant in West Virginia and have expanded that three times. We built a new plant, an engine plant in Alabama. We're expanding it. We built a new assembly plant in Texas. And we're building a new casting plant in Tennessee. We expanded our casting plant in Missouri. Our affiliate Hino will assemble medium duty commercial trucks in southern California. And another affiliate of ours, Aisin, has just created a new transmission plant in North Carolina that will employ 700 people.

So we've been fortunate to grow in this country, creating jobs and economic opportunities. But as a large manufacturer here, we also face the challenges that all the manufacturing community faces in the United States. Those are **deflationary pricing, the rising cost for regulations, health care and energy, high tariffs, developing countries, and the search for future qualified workers.**

Deflationary pricing is perhaps the fundamental problem facing manufacturing, and it's a problem that doesn't affect other industries such as health care, or, my former profession, legal services. Because of the intense global and domestic competition, manufacturers here can't raise prices. So if costs go up, we can only survive by raising productivity.

Now, this is tough news for manufacturers, but it's good news for the consumer. It's good news for the economy. And, indeed, continued productivity improvements are a key to improving our standard of living in the United States. But because controlling costs are so important to manufacturing's future, NAM issued a recent report on these cost pressures, and I brought some reasons called "How Structural Costs Imposed on U.S. Manufacturers Harm Workers and Threaten Competitiveness." I see some of these are at your seats, and if you have time and if you care about manufacturing, you might want to glance through and read this report, you'll find that our costs, our so-called structural costs of doing business are higher than our major trading partners. And the major finding is that there are local, state, and federal governments impose at least 22% in added costs

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to doing business here, causing more damage to manufacturing than foreign competition. And the NAM study highlights how these five areas -- taxes, health care, regulations and natural gas prices are undercutting our competitiveness.

Here are some facts: The U.S. is not a low-tax country. Our corporate tax rate of 40% puts us at a higher rate than every one of our trading partners, with the exception of Japan. Manufacturers who operate in the U.S. face higher litigation costs than any country in the world. Estimates are that tort costs cost U.S. manufacturers 2.5 times more than they do in other parts of the world. Plaintiffs' lawyers stand ready to lash out in all directions to make somebody pay for eating fast food, spilling coffee, or virtually any other incident. Let me give you an example. Two students were attending a small college, and they had a disagreement. One of those students took his revenge by burning the dorm area where his adversary slept. The sleeping student died from smoke inhalation, and the student who set the fire is now serving time in jail. But that wasn't enough. In the ensuing aftermath, parties who had any connection to the incident, including the companies that made the draperies, the wallpaper, the furniture or anything else that could have served as fuel for that fire were sued for the role their products played in that death. And one of our companies at NAM, a small manufacturer, was sued. They eventually got out of the litigation, but they spent thousands of dollars. That's just added cost. You don't find that kind of litigation in China. You don't find it in Canada. You don't find it in Korea. But you find it here. It's expensive. It adds cost. And in my mind --and I say this as a lawyer - - the only beneficiaries, the real beneficiaries are the Trial Bar and a few plaintiffs who hit it big in the litigation lottery. And the rest of us lose because we have to respond to those added costs.

Our next challenge is regulatory costs, and they run the gamut, and U.S. Manufacturers spend more on regulatory costs than our trading partners. And when you add it all up -- and the details are in that report, the taxes, litigation, and the like -- you add 22% to the cost of doing business in the United States. And without these added costs, the total cost of manufacturing in the United States would be lower than Canada, Germany, the U.K., or France and close to South Korea. So think of the U.S. Manufacturing base as a long distance marathon runner, running with an additional five-pound pack on his back. If the runner is fit, has trained well, he can compete over the first few miles, but by the 20th mile, that extra five pounds would have made a big difference. Now, we hear a lot about leveling the playing field. And I suggest that we start with these structural items. Our elected officials at the local, state, and federal level can remove this burden if they have the courage and will to do so.

The third challenge facing manufacturers are trade barriers especially tariffs in developing countries. The average industrial tariff in the United States is less than 2%. Tariffs in some developing countries are 10, 20, or 30%, and that undercuts U.S. exports. One small NAM company in Missouri can't sell industrial oil filters to an Argentine oil industry company because of a 30% tariff that applies only to companies in the U.S. and other countries that don't have a trade agreement with Argentina. Trade agreements to eliminate or reduce these tariffs and facilitate free trade are good for all parties.

The last of our challenges in manufacturing is the future work force. Speaking as a baby boomer, many of our most skilled and talented workers are baby boomers, and guess what? We're starting to retire. The younger population that will eventually replace us, the 18 to 24-year-old group, is smaller than the baby boomer group. To make things

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worse, NAM has conducted focus groups across the country. We're learning that many young people don't want to consider manufacturing as a career. And those who do seek jobs in manufacturing are often not prepared with this math and science skills that are increasingly important to the modern factory. So we face this tremendous question in the near future: Where are future skilled workers going to come from? Our electricians...our pipe fitters? 35% of China's college undergrads graduate in engineering, and 6% graduate in engineering in the U.S. I have twin boys. They graduated with engineering degrees from Cornell university of Virginia, and many of the students in their classes were foreign students. We have to do a better job in our high schools and colleges in educating our young people and getting them to go into technical fields that add value.

All in all, manufacturers and non-manufacturers alike have an interest in maintaining a vibrant and healthy manufacturing base and I, for one, believe our efforts should be directed to education and removing some of the structural costs of doing business in the U.S., such as the litigation overhang. To change attitudes towards industry, NAM has launched a campaign for growth and manufacturing renewal, and the Coalition for the Future of Manufacturing. And I'm delighted that IEDC is a coalition member. I encourage each of you to add your name to the list. There are blue sign-up sheets someplace in the room. It doesn't cost any money. If you sign up, you can show your support for manufacturing.

In closing, I hope I've demonstrated how manufacturing remains a pillar of the U.S. economy. We must continue to educate our elected officials about that fact. Manufacturing can and will have a robust future if we can take care of some of these challenges that I've described. We need you in the economic development community to help us because I think, among all audiences, you recognize the importance of manufacturing. I know because many of you have solicited me in the past for expansions, et cetera. And I think that the work that you do is very important and I salute you for it.

Thank you very much.