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CAPITAL COMMERCE

Should Uncle Sam Help Domestic Manufacturers?

By U.S. News Staff

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A [recent study](#) from the National Association of Manufacturers claims that the competitiveness of domestic companies is being hurt by rising "structural costs." Problem areas include taxes, employee benefits, litigation expenses, and energy prices. As the NAM figures it, U.S. manufacturers are at a 31.7 percent cost disadvantage vs. foreign rivals. That's up from 22.4 percent in 2003. "The sharp rise in these nonwage costs represents a significant and long-term problem for our nation's manufacturers and America's economy," said John Engler, the NAM's president and former Republican governor of Michigan, when the report was released.

Take taxes, for instance. The U.S. corporate tax rate of 40 percent (federal rate plus a composite of state rates) has stayed the same during the past three years. But Mexico (34 percent), Japan (42 percent), and South Korea (29.7 percent) have cut their taxes on business. (Interestingly, "communist" China has just a 25 percent tax on companies.)

Let's assume, for a moment, that the NAM is right. Is there anything that U.S. companies can do to help themselves other than lobby the feds for lower taxes and tort reform? Yes, argues Kevin Meyer of [Superfactory](#), a website devoted to promoting "lean" manufacturing principles such as a quest for zero defects and waste minimization. (This is often called the "Toyota Way.") In an E-mail to me, Meyer writes:

In my opinion we should worry less about small single-digit differences in tax, regulatory, and other "burden" costs, and focus on how to remove the waste and improve the efficiency of internal operations ... By using those tools many companies have become extremely competitive. Toyota (and Nissan, Honda, etc.) compete very well from their U.S.-based plants. Large U.S.-based industrial manufacturing companies like Danaher and Parker-Hannifin are extremely competitive globally ... One way to do this would be to fund the Manufacturing Extension Partnership programs, which help small and midsize manufacturers learn about improved methods, such as lean manufacturing. We need to keep an eye on the "burdens" that NAM talks about to ensure they don't grow, but our real focus needs to be on operational improvement using known methods.

The \$106 million [MEP program](#) that Meyer mentions is run by the Commerce Department and funds centers around the country that provide advice on lean manufacturing and other issues. The Bush administration has proposed slashing the MEP budget in recent years, including a 50 percent cut in fiscal 2007. To get the NAM's response, I shot an E-mail over to Pat Cleary, who writes the snappy ShopFloor <http://blog.nam.org/> blog for the NAM. His response:

Kevin & Co. are dead-on right, full stop. But that's not at the exclusion of the external costs that government puts on ... We're not saying, "Fix these costs and all your problems will disappear." We're saying Congress needs to focus on the problems it has within its ability to fix, like legal reform, extending the tax cuts, boosting domestic supplies of energy. Those are now giving us a 32 percent cost disadvantage vs. our competitors. Congress needs to fix that. We-manufacturers-will take it from there ... And yes, we are huge supporters of full MEP funding.

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