

Comments of the International Association of Machinists and Aerospace Workers (IAM)

Proposal to Change the 2012 North American Industry Classification System

July 11, 2014¹

Pursuant to a request for comments published in the Federal Register on May 22, 2014, by the Office of Management and Budget, the International Association of Machinists and Aerospace Workers strenuously object to the proposal to change the 2012 North American Industry Classification System. As one of the largest manufacturing unions in the United States, representing workers who produce many of the goods we export, the proposed change would distort real manufacturing statistics by including goods that are manufactured in other countries. The IAM finds this proposal offensive and if adopted, would encourage more companies to produce goods overseas, resulting in the loss of a significant number of U.S. jobs.

The President has continually called for curtailing corporate incentives to outsource manufacturing to other countries, saying “it is time to stop rewarding businesses that ship jobs overseas, and start rewarding companies that create jobs right here in America.”² A White House fact sheet summarizes his plans for restoring U.S. manufacturing jobs.³ In explicably, the proposal by Census to dramatically alter the way government keeps statistics on domestic industries would do exactly the opposite. The proposal suggests “that factoryless goods producers (FGPs) be classified” as manufacturers.

In addition to being an oxymoron, the proposal, if adopted, would create a statistical fiction that companies that are American in name only, which outsource 100 percent of their production, assembly and services to other countries like China, will be deemed to be manufacturers. In other words a company does not have to manufacture any of its products in the United States to be considered a U.S. manufacturer. For example, companies like Apple which, according to the *New York Times*, relies on hundreds of thousands of workers in other countries to produce its goods, would now be included in manufacturing industry statistics.⁴

Workers who have been laid off because their work has been sent overseas have been crying foul for years. This proposal would add insult to injury by creating the absurd statistical conclusion that foreign production of outsourced work from the United States, still counts as being made here.

As a basis for the proposal, OMB reasons:

¹ Based on, Herrnstadt, “Statistics that Spin: Foreign Goods to Be Considered U.S. Goods?”, <http://www.epi.org/blog/statistics-spin-foreign-goods-considered/>

² <http://www.whitehouse.gov/the-press-office/2013/02/12/remarks-president-state-union-address>

³ <http://www.whitehouse.gov/the-press-office/2013/02/13/fact-sheet-president-s-plan-make-america-magnet-jobs-investing-manufactu>

⁴ <http://www.nytimes.com/2012/01/22/business/apple-america-and-a-squeezed-middle-class.html>

Recent years have witnessed rapid and widespread specialization in goods manufacturing as global competition has motivated producers to seek more efficient production methods. This has resulted in outsourcing manufacturing transformation activities...When individual steps in the complete process are outsourced, an establishment should remain classified in the manufacturing sector.⁵

The proposal creates an Alice-in-Wonderland distortion of manufacturing statistics that could have widespread implications. The immediate implication is that on paper, the value of U.S. exports will surge and our trade deficit will significantly shrink.⁶ This dangerous falsehood will convey the message that our economy, particularly industrial sectors like manufacturing, is growing at an accelerated rate, when in fact it is not.⁷ It will also be relied on to support trade and investment agreements that have had, in reality, a negative impact on U.S. manufacturing and its workers.⁸

Another serious implication involves the method that various agencies use to calculate domestic content of goods and services for measuring associated U.S. jobs.⁹ Domestic content is the key factor in the application in Buy American laws and U.S. Export-Import Bank policies. Buy American laws require that taxpayer money spent on government procurement is used to buy U.S. produced goods. Ex-Im domestic content policies are essential for letting it meet its mission of providing financing for exports that are made by U.S. workers. If the definition of U.S. manufacturing is nonsensically broadened to include foreign manufactured goods, can considering foreign parts, components and other goods as made in the United States be far off?

The proposed change would also have serious implications for consumers. The Federal Trade Commission's definition could not be clearer:

A product that is all or virtually all made in the United States will ordinarily be one in which all significant parts and processing that go into the product are of U.S. origin. In other words, where a product is labeled or otherwise advertised with an unqualified “**Made in USA**” claim, it should contain only a de minimus, or negligible, amount of foreign content... in order for a product to be considered “all or virtually all” made in the United States, the final assembly or processing of the product must take place in the United States.¹⁰

⁵ https://www.census.gov/eos/www/naics/federal_register_notices/notices/fr22my14.pdf

⁶ <http://www.epi.org/publication/white-house-wrong-fast-track-massive-trade/>;<http://www.epi.org/blog/korea-trade-deal-resulted-growing-trade/>

⁷ <http://www.washingtonpost.com/blogs/wonkblog/wp/2014/05/29/economy-shrank-during-first-quarter-government-data-show/>

⁸ <http://www.epi.org/publication/nafta-legacy-growing-us-trade-deficits-cost-682900-jobs/>

⁹ <http://www.epi.org/publication/rewards-shipping-jobs-overseas/>

¹⁰ <http://www.ftc.gov/news-events/press-releases/1997/12/ftc-retain-all-or-virtually-all-standard-made-usa-advertising>

The proposal contradicts the FTC's well thought out definition and could lead to massive deception in marketing practices. It is easy to imagine that some companies could claim that their products are made in the United States when they are made offshore. Consumers looking for the Made in USA label would be dumbfounded to learn that goods made in China and elsewhere would be considered manufactured in America. Indeed, adopting this proposal would be inviting factoryless producers to start labeling their goods as "U.S. manufactured," misleading well-intentioned consumers.

The proposal posted by OMB would be laughable if it didn't have such serious implications. If adopted, the proposal would damage the credibility of much needed government statistics. It would also raise issues of transparency by making it more difficult to accurately identify a product's manufacturing country. Most important, it would move us in the exact opposite direction that the president spoke of when he so eloquently called for ending incentives for companies to send manufacturing work to other countries.