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COMMENTARY 20170225

Priorities of the National Association of Manufacturers

February 25, 2017

The National Association of Manufacturers argues for lower corporate taxes, incentives for R&D and capital spending, less regulation and increased infrastructure funding. U.S. corporate taxes are high by global standards so the case for a reduction has merit. The argument for R&D and capital incentives is less clear as this merely shifts the taxation burden to service industries and individuals. The annual cost of regulation on small manufacturers is high – $35,000 per worker according to the association – but it is important to be specific about which regulations should be cut. Environmental regulations account for 60 per cent of the association's estimate of regulatory burden. So the association should be specific about which environmental regulations it deems unreasonably burdensome. On infrastructure, the association is concerned by a $1.1 trillion shortfall in funding over 10 years, a figure compiled by the American Society of Engineers. It proposes charging drivers higher fees for gas and registration and a fee for miles driven. The problem is that, while this alleviates the funding shortfall, it doesn't tell us which new investments have the highest market value. So it is also worth considering more sophisticated ideas like value capture – that is, charges for owners of land or developments for the value created as a result of infrastructure improvements.

INTRODUCTION

Association priorities

At a meeting of the Detroit Economic Club on February 24th 2017, Jay Timmons – President of the National Association of Manufacturers (the association) – outlined the policy priorities of his organization. Manufacturers that Mr Timmons represent want lower corporate taxes, less regulation and increased infrastructure funding. We consider these priorities in detail below.

TAX

The association makes the specific case for a corporate tax rate of 15 per cent, incentives for research and development spending and faster depreciation of capital expenditure. The case for a reduction in the corporate tax rate has a reasonable foundation. A typical business in the United States faces a headline tax

rate of 39 per cent, combining federal and state taxes, compared to rates of 20 per cent to 34 per cent across the other six economies in the G7, according to OECD estimates.[1]
Of course, the other six G7 countries all adopt a value-added tax which offsets the lower corporate tax revenue.

So the normal case is that the spending priorities of large, developed nations are met with a combination of moderate corporate taxes plus a broad-based value-added tax.

The case for R&D incentives and faster depreciation rates on capital expenditure is less obvious. R&D incentives and quicker depreciation on capital spending merely shift the taxation burden away from capital-intensive industries to services firms and individuals, who also have something to say about their contribution to growth and employment.

REGULATION

On regulation, Mr Timmons presented a key finding from a recent report prepared for his association[2] – that the average annual cost of complying with federal regulations for small manufacturing firms was $35,000 per employee.[3] Importantly, costs are disproportionately borne by small firms. For manufacturing firms with 100 or more employees, the estimated annual regulatory burden is just $14,000 per employee.
When making the argument for less burdensome regulation, it is important to be specific about what regulations have the greatest impact. For small manufacturers, environmental regulations comprise $20,000 of the $35,000 annual compliance estimate, according to the report prepared for the association.[4] In comparison, across all small businesses, environmental costs amount to an estimated $4,000 per employee. This falls even further to $1,000 per employee for all large businesses.
The key point is that if there is to be an argument for a reduced regulatory burden, that argument needs to be specific. For small manufacturers in particular, there needs to be the specific argument that either (a) particular environmental regulations are too stringent compared to societal expectations for air quality, water quality or other environmental concerns; or (b) that small manufacturers are being forced to share an unreasonable burden in meeting environmental aims.

The figure of $35,000 in compliance costs per employee is certainly useful in presenting the prima facie case that regulation places a disproportionate impact on small businesses.

[1] The Organization for Economic Cooperation and Development reports 2016 corporate tax rates of 34 per cent in France, 30 per cent in Germany, 31 per cent in Italy, 27 per cent in Canada and 20 per cent in the United Kingdom.
[2] Crain, W.M., and N.V. Crain, 2014. "The cost of federal regulation to the U.S. economy, manufacturing and small business: A report for the National Association of Manufacturers," September 10, 2014.
[3] Crain & Crain (2014), Table 1, p. 2. A small firm has less than 50 employees.
[4] Crain & Crain (2014), Table 12, p. 53. The basis for the allocation of regulatory costs across industry sector and type of cost is given in Table 9, p. 47.

Now that the prima facie case is front and center of policy makers' minds, we should be clear about just what high cost environmental regulations should be removed to meet societal expectations and level the playing field for small manufacturers.

INFRASTRUCTURE

Mr Timmons made a broad call for modernization of infrastructure relating to transport, energy and technology. Mr Timmons provided the headline figure that there is an infrastructure funding gap in surface transportation of $1.1 trillion over the 10 year period from 2016 to 2025. The figure is an estimate prepared in a report for the American Society of Engineers and covers funding for highways, bridges, commuter rail and transit systems.[5] Below, we report some details from the engineers' report.

The economic impact of poor surface transportation is large. The report estimates that more than 40 per cent of buses and 25 per cent of rail transit systems are in marginal or poor condition.[6] On roads and bridges, the report states that quality has been improving over the past six years – there are fewer roads in poor condition and fewer bridges that are structurally deficient. Further, funding has been stabilized. So it is not the case that policy makers have simply ignored the poor conditions of roads and bridges. However, the report then goes on to state that funding for these improvements has come from a shift from new investment to maintenance, meaning that we will see adverse economic impacts on vehicle costs and time delays from higher usage of existing infrastructure.

How much impact? The loss of an estimated 1 million jobs by 2025, and after that a decline in average productivity as economic activity shifts from knowledge- and technology-based roles to lower paying service sectors.[7]

While not part of Mr Timmons' presentation, the association has considered how its proposed transport infrastructure funding increases could be paid for – increasing taxes on gas and registration fees, and a fee on miles travelled.[8] It would be useful to go one step further, and think about the participants who benefit most from specific infrastructure improvements in order to decide on priorities.

Specifically, taxing the drivers of cars and trucks provides base funding for roads and provides incentives for workers to attempt to lessen their commute. But it does not help us to decide ***which new roads or other infrastructure*** should be funded, and the benefits from new infrastructure are not evenly dispersed. Businesses located close to an upgraded road, rail or port will receive the greatest benefit.

This means that value capture is worth considering. Value capture comprises levies on owners of unimproved land to reflect the increase in land value from spending on nearby infrastructure, the sale of development rights, and a charge for a change in use.

Value capture mechanisms are a way of generating more private sector funding, but importantly they generate signals for policy makers about which infrastructure investments are expected to generate the most economic value.

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[5] Economic Development Research Group, 2016. "Failure to act: Closing the infrastructure funding gap for America's economic future," Report prepared for the American Society of Civil Engineers (hereafter The Infrastructure Report).

[6] The Infrastructure Report, p. 13.

[7] The Infrastructure Report, p. 13.

[8] National Association of Manufacturers, 2016. "Building to win," p. 28.

SUMMARY

In short, the association has made the prima facie case that economic growth would benefit from lower corporate taxes, lower regulation and greater infrastructure funding. What matters next is the details: (a) developed countries have lower corporate taxes but also have broad-based value-added taxes; (b) lower regulatory burden really means lower environmental burden so we need to be specific about how costs can be shifted from small manufacturers while still maintaining environmental standards; and (c) we would see efficiency gains from using a market-based mechanism like value capture to determine infrastructure priorities.