Pennsylvania Manufacturers' Association

March 27, 2021

Testimony before the:
Pennsylvania State Senate
Committee on Community, Economic, and Recreational Development

Government Barriers to Manufacturing Growth in Pennsylvania: Challenges and Opportunities

David N. Taylor
President & CEO

The Frederick W. Anton III Center • 225 State Street • Harrisburg, Pennsylvania 17101
Phone (717) 232-0737 • Fax (717) 232-8623 • www.pamanufacturers.org

Good morning, Senator Yudichak, Senator Cappelletti, and members of the committee. Thank you for the privilege of testifying today. I am David N. Taylor, President & CEO of the Pennsylvania Manufacturers' Association. Founded in 1909 by Bucks County industrialist Joseph Grundy, the Pennsylvania Manufacturers' Association is the statewide trade organization representing the people who make things in our commonwealth. Manufacturing is the engine that drives Pennsylvania's economy, creating $93 Billion in value-added every year, directly employing over a half-million Pennsylvanians on the plant floor, and sustaining millions of additional Pennsylvania jobs in supply chains, distribution networks, and vendor services. Because manufacturing adds the most value of any other sector, manufacturers offer the best wages and benefits in the marketplace, upholding the quality of life in our communities and sustaining local tax bases.

Today, I want to focus on two major challenges facing our sector, but also describe an opportunity Pennsylvania has that can deliver broad-based, sustained economic growth to every corner of the commonwealth.

Our most immediate challenges are in the areas of building the workforce and improving our regulatory environment. As we work to overcome these challenges, we can also see that Pennsylvania's energy-enabled manufacturing economy has the potential to generate an abundance of value-added goods, family-sustaining jobs, and economic dynamism.

The most critical input that is lacking for manufacturers today is the supply of qualified workers. The workforce crisis is real and is a hard cap on Pennsylvania's economic growth. Federal and State government have become a competitor to employers when people are paid more to stay home than they would earn at work.

Nationally, manufacturers are facing an alarming problem: our workforce is aging and retiring and there is a shortage of skilled hands to succeed them. Pennsylvania is no exception to this problem. According to the Manufacturing Institute, at any given point in time there are roughly 6,000 open manufacturing positions in Pennsylvania. Couple the current shortage with the fact that some companies have more than half of their current workforce within just a few years of retirement and we must consider this workforce problem to be a workforce crisis. The glut of unfilled jobs due to this skills gap is likely to become an increasingly pressing problem.

As a result of employers' inability to find enough qualified new hires, businesses are not able to grow to meet current levels of customer demand. Those employers are "leaving money on the table" because they can't find the quality employees they need to increase production capacity to be able to bid on new work, which is available. This is what I am trying to express when I say that the workforce crisis is a hard cap on growth.

At the same time, this workforce crisis also offers an opportunity for true social progress in America. Due to the reality of more jobs available than people looking for work, employers will be compelled to cast the net wider by considering candidates that they would not have considered before: people who have been outside the workforce due to unemployment, being on public assistance, or ex-offenders who are trying to begin their lives again. This is a subject for a longer conversation at another time, but I wanted to at least note that potential for progress at the heart of this issue.

Of course, to get people into the workforce, they first have to want to work. This is one of the problems of the current moment because of Congress' policy of subsidizing state unemployment compensation payments. Federal and state governments were correct to respond to the needs of our citizens caused by the economic shutdown triggered by the pandemic. Many people are still dealing with both the health crisis and the economic consequences of the shutdown. The impulse to be generous is understandable, but, regrettably, the federal taxpayer subsidy to state unemployment benefits is keeping many employees out of the workforce.

Additionally, regulations at the local, state, and federal level are suffocating business growth and investment throughout our commonwealth. Over-regulation causes entrepreneurs to balk at developing, expanding, or even creating a business in the first place.

According to a 2018 analysis by the Mercatus Center at George Mason University, the "Pennsylvania Code contains 153,661 restrictions and roughly 12.8 million words. It would take an individual about 713 hours—or just under 18 weeks—to read the entire Pennsylvania Code… individuals and businesses in Pennsylvania must navigate all of these restrictions to remain in compliance."

With the ability to search for specific regulations based on key terms on the Pennsylvania Independent Regulatory Review Commission website, use the search term "water" in "final regulations" and the search result will generate 281 individual regulations. "Gas" will yield 189 regulations. "Land" will result in 218 regulations. And "manufacturer" returns 316 unique regulations. Our employers are facing an onslaught of regulations from a breadth of departments at both the state and federal level. This creates uncertainty in business planning and results in companies not growing, expanding, hiring, or investing as they might.

Employers understand that a healthy and sustainable natural environment, safe working conditions, and best standards of practice and care are essential for the public good and for attracting and retaining high quality employees. No one is saying that there should be no rules. But those rules should be based on sound scientific evidence to ensure that they are reasonable and achievable with existing technology. In the same way, these regulations should be subject to meaningful cost/benefit analysis and should be applied uniformly, so as not advantage one sector of the economy over another.

As one of the ancient philosophers said: the laws should be few, and well-known. In America today, we live in a world that is almost the opposite of that; where federal and state regulations are so vast and pile up so quickly that it is impossible to understand all of the responsibilities that we are expected to meet.

Because compliance itself is the public good that results from regulation, the Commonwealth should be a partner in compliance. When there are knowing, deliberate, willful violations of important regulations, punishment is appropriate. We need for state government to end the "GOTCHA!" dynamic of fault-finding and imposing punitive fines and penalties and instead make assistance with compliance the primary goal.

State regulations should not be more stringent than federal regulations unless there is a compelling reason that is unique to the commonwealth. It is imperative that state government not enact regulations that place Pennsylvania at a competitive disadvantage to the other 49 states. In the most recent Forbes "Best States for Business Report" Pennsylvania ranked 35th in the category of "Regulatory Environment." In the latest "Rich States, Poor States" report published by the American Legislative Exchange Council, Pennsylvania ranks 40th out of 50 in overall economic performance.

American business capital and talent are more mobile than ever before. Investment is like water: it will flow to the path of least resistance. And, in Pennsylvania, both from a quantitative and qualitative perspective, it's clear that government does not move at the speed of business. This "opportunity cost" drives investment away from our commonwealth and into our competitor states, which are no longer only in the mid-Atlantic region and the Northeast; but high-performing states including Utah, Arizona, Texas, Florida, Indiana, and North Carolina.

Especially relevant given where this hearing is taking place, look no further than the recent decision by U.S. Steel to pull a $1.5 billion investment in the Mon Valley Works in nearby Braddock, PA. After years of delays in getting approvals and permits to make this historic reinvestment in local jobs, Allegheny County's most famous employer, one of Pennsylvania's last Fortune 500 companies, called it off. No city in America has benefited more from a single industry than Pittsburgh has from steel. So why would anyone believe that an out-of-state manufacturer considering a new facility would see what happened with U.S. Steel and then decide to invest in southwestern Pennsylvania?

Another example of lost investment can be found across the commonwealth in southeastern PA. In 2016, Braskem USA announced a major investment in La Porte, Texas instead of Marcus Hook, Pennsylvania because of a lack of pipeline capacity for natural gas liquids (NGLs). However, Braskem USA indicated that future investment in Marcus Hook, Pennsylvania was possible with enhanced infrastructure development.

An expanded polypropylene manufacturing facility in Marcus Hook would have meant an initial investment of $675 million, 1,000 construction jobs over a two-year period, and an additional 50 full-time jobs at the plant in perpetuity. The economic impact of this initial investment, the support of the construction jobs, the 50 permanent plastics and resins manufacturing jobs, and the indirect and induced jobs that would have supported this expanded economic activity would have meant ONE BILLION DOLLARS in economic output in less than five years.

But, because of Pennsylvania's continued battles over energy infrastructure and the uncertainty in its permitting processes, Braskem couldn't take the risk and chose Texas instead.

If we want the future to happen here, if we want a Pennsylvania where you don't have to buy a plane ticket to visit your grandkids, HARRISBURG MUST CHANGE.

The goal of Pennsylvania policymakers should be to make it the smart business decision for employers to locate, expand, and hire here rather than in one of our competitor states. That is why PMA supports efforts to reform Pennsylvania's regulatory burden by undergoing a systematic review to streamline processes, require legislative approval of the costliest and most consequential new regulations, and why we support instituting a system of regulatory budgeting to set maximum limits on the total costs of compliance for the private sector. Ultimately, these changes will allow our elected representatives to ensure that proposed regulations achieve their intended goals while minimizing the impact on our job creators and economic vitality. But rightsizing the regulatory burden remains a challenge.

Of course, with challenges come opportunities.

One of the most important inputs for manufacturers is energy. No matter what you are making, manufacturers consume a lot of energy in the process of turning raw materials and component parts into finished products. For many manufacturers, energy is the most expensive business input, which explains why we are so passionate about maximizing the opportunities that are before us to power our industrial economy.

Manufacturers require energy in large volumes, with reliable delivery, and at affordable prices. This is why PMA supports maximizing domestic production of Pennsylvania natural gas and retaining the established competitive marketplace for electricity. We are also strong supporters of enhancing and expanding Pennsylvania's energy infrastructure, including upgrading the electrical grid for greater capacity, reliability, and efficiency; and building out new pipeline networks to deliver natural gas and natural gas liquids.

The deployment of new pipeline infrastructure has made possible the very welcome news that Kimberly Clark will stay in the city of Chester; retaining 570 jobs on site and continuing to be a major local taxpayer in that community. The Adelphia Gateway pipeline will deliver natural gas to a new 24-megawatt cogeneration facility to replace a coal powered unit that has already been demolished. Without the connection to Adelphia Gateway, Kimberly Clark's decision to invest $150 million, in an upgrade that will reduce emissions by 50% within ten years, would almost certainly not have happened.

The discovery and development of the Marcellus and Utica natural gas shale plays is a world-historic event. If Pennsylvania, Ohio, and West Virginia were an independent nation, we would be the third largest producer of natural gas in the world. Over the last fifteen years, Pennsylvania has gone from being an importer of natural gas to being the second largest natural gas producer in America, behind only Texas. Pennsylvania and Texas produce over half of America's natural gas and Pennsylvania's contribution to the nation's energy production has made America number one in the world.

Within the Marcellus formation in Pennsylvania, approximately two-thirds of the play is pure methane (known as "dry gas") and remaining third is rich with other natural gas liquids like ethane, butane, propane, pentane, and natural gasoline ("wet gas"). Both manifestations have high-value manufacturing potential. Act 66 of 2020 (thank you, Senator Yudichak) established a production-based tax credit for manufacturing from the value chain of methane. That followed the path set by the production-based tax credit enacted in 2013 for manufacturing from the value chains of the "wet gas" natural gas liquids, which enabled Pennsylvania to land the $8 Billion investment from Royal Dutch Shell for the polyethylene plant in Beaver County.

Depending on how it is processed, the value chain from polyethylene can yield every kind of plastic, Styrofoam, and rubber and every kind of paint, glaze, coating, solvent, and adhesive. These inputs then can be processed further or deployed as components to make other products. These additional levels of increasing manufacturing value-added are made possible by the production from the processing of natural gas and natural gas liquids. We now have the means of building an entirely new industrial sector for Pennsylvania, one that will give investors an actual economic reason to locate, hire, operate, and expand here rather than in one of our competitor states.

But what is possible will only come to pass if we make it so. Pennsylvania must act to show we want the investment, jobs, and economic growth to happen here. A pro-production agenda in Harrisburg for energy and manufacturing is necessary, and the most important item on that agenda at this hour is delivering the energy and feedstocks from where they are harvested to the downstream industrial, commercial, and residential customers who can benefit from them.

PMA is proud to be part of the Forge the Future coalition, which commissioned a report on the potential for an energy-enabled economy for Pennsylvania. McKinsey & Company found that maximizing Pennsylvania's energy opportunity could yield more than 100,000 new Pennsylvania jobs, expand our Gross Domestic Product by $60 Billion, and increase annual revenue to state government by $2 Billion to $3 Billion. To emphasize, this would be a permanent enlargement of our economy by $60 Billion per year, rather than a one-time boost.

The ongoing Forge the Future project and last session's "Energize PA" agenda are examples of the kind of pro-growth, pro-production, pro-jobs thinking that Pennsylvania needs to build on. We need to encourage greater deployment of combined heat and power operations and more use of on-site natural gas wells to power them, like U.S. Steel had hoped to do at the Edgar Thomson Plant.

I want to live in a world where Pennsylvania's energy-enabled manufacturing economy is delivering broad-based, sustained economic growth to every corner of the commonwealth, with abundant job opportunities, a trained workforce to fill them, and rising wages. We have the chance to make Pennsylvania the place where the makers and do-ers produce the goods that Americans purchase every day. We can change the economic equation to bring back production from China and other nations. Pennsylvania energy leadership is American energy leadership and the impact that Harrisburg can have on this reality cannot be overstated. All of these things are now possible because of the potential of Pennsylvania's energy revolution. All we have to do now is make it happen.