



# Harnessing Government Spending to Revitalize Good Manufacturing Jobs

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## JOBS TO MOVE AMERICA

Jobs to Move America (JMA) is a national non-profit organization. A research, strategy, and advocacy center, JMA is committed to harnessing government procurement to realize equity; to promote environmental sustainability; to further open, democratic government; and to achieve an inclusive, diverse workforce that lifts people into middle class jobs.

JMA is dedicated to ensuring that the billions of public dollars spent on public infrastructure create better results for our communities: good jobs, cleaner equipment and more opportunity for historically marginalized people.

# Harnessing Government Spending to Revitalize Good Manufacturing Jobs

OCTOBER 3, 2017 – MADELINE JANIS, ROXANA ASLAN AND KATHERINE HOFF

Manufacturing has historically been a vital part of the United States economy as a major provider of stable, high-wage jobs and a builder of a strong middle class. Currently, the sector remains a vital part of the U.S. economy by directly supporting 12.4 million jobs and generating significant demand for goods and services from other economic sectors.<sup>1</sup> However, over the past four decades, the sector has shrunk,<sup>2</sup> and so too has the growing economic prosperity that accompanied it. This hollowing out of the American middle class has progressed steadily,<sup>3</sup> income inequality growing to the point that the top 10 percent of earners now reap nearly 50 percent of the nation's income.<sup>4</sup> Further, this income inequality has been widened along racial and ethnic lines, as the wealth of white households has increasingly exceeded that of people of color.<sup>5</sup>

As state and local governments across the country have been seeking innovative solutions to combat these growing social and economic trends, our public institutions must play a central role in strengthening policies that can rebuild the middle class. With millions of U.S. manufacturing job openings projected over the next decade,<sup>6</sup> now is the time to seize the opportunity for innovative policies that can revitalize this sector and ensure that the jobs we are creating are high-quality, permanent jobs, and are accessible by all Americans.<sup>7</sup>

The public discourse about revitalizing the U.S. manufacturing sector has for decades mostly focused on tools such as tax incentives and subsidies. The success of these standard measures, however, has been mixed, with few demonstrable long-term results, and in many ways, they have gone off track. In addition to proposing mechanisms to ensure that these conventional policy tools are more effective, this report considers new ways in which government can play a role in revitalizing manufacturing, and brings to light new tools to ensure good jobs, inclusivity, and community benefits tied to all public investment in private manufacturing. Namely, the report is intended to help spark a discussion around reenergizing the U.S. manufacturing sector by coupling government procurement dollars with incentives for inclusive, high-road employment, as well as mechanisms for evaluation and accountability of results.

The concept of placing requirements on government procurement in order to achieve certain goals is not new, and in fact can be traced back decades. Yet, despite the huge potential in leveraging government purchasing power, this spending has not been robustly tied to the challenges confronting today's manufacturing sector.

Over the past five years, cities, states, and local governments have developed new tools to use to competitively bid for

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public purchases of manufactured equipment in order to win bottom-line results in three categories: good jobs, investment in domestic manufacturing facilities, and commitments to recruitment and training for people facing barriers to employment. The recent history of public procurement shows that when community groups, small businesses, and unions negotiate with bidders on public contracts to win community benefits agreements, they can further help institutionalize these new job and economic development commitments. Furthermore, strategically linking local and state economic development incentives to contracts to purchase manufactured equipment can revitalize urban areas suffering from high unemployment in a much deeper way than just the granting of those subsidies.

There is immense potential in expanding the use of these new tools and upscaling the effort to a larger portion of government procurement. Using this framework to increase domestic manufacturing, for example, could create 38,600 direct and indirect jobs per year in the United States through the \$4.6 billion bus and rail investments alone.<sup>8</sup> With state, local, and federal agencies currently spending about \$2 trillion a year to purchase goods and services for public use, the possibilities to generate high-quality jobs and access for all within the manufacturing sector are substantial.

This report recommends that public agencies take the following actions:

- Develop strategic inclusive procurement policies to harness public purchases of manufactured equipment to create good-quality U.S. manufacturing jobs and factories in disadvantaged communities throughout the United States.
- Direct subsidies toward manufacturers that offer stable, quality jobs and opportunities for women, people of color, people reentering the workforce, and veterans so that these workers can more easily obtain high-quality, middle-skilled employment.
- Create comprehensive industrial development programs that connect existing economic incentive programs with

strategic, inclusive procurement policies, and promote monitoring and accountability measures.

- Institutionalize bidder commitments to good jobs, environmental standards, and other community benefits on public contracts by encouraging contractors to engage with community and labor groups and sign community benefits agreements.
- Strengthen federal industrial policies to encourage federal, state, and local use of strategic, inclusive procurement tools; to support investment in research and technological innovation; and to encourage the development of supply chain clusters in targeted industries.

## The Need for Intervention in Conventional Policy

Government has historically played a key role in fostering manufacturing in our communities. Especially noteworthy, governmental economic development incentives directed to sustaining and promoting manufacturing have been—and continue to be—largely responsible for the trajectory of manufacturing in the United States. Examples of these governmental incentives, which have increased by leaps and bounds over the past fifty years, include investment in the development of new technologies by private companies, giving land to American manufacturers, granting them multi-year tax exemptions, and reimbursing them for portions of their employees' wages.<sup>9</sup>

However, a broad political and cultural reluctance by public officials to hold subsidy recipients accountable and a false premise that manufacturing is entirely a “free-market activity” have led to a common governmental failure to acknowledge the debt these manufacturers owe to the taxpayers who fund the subsidies.<sup>10</sup> More often than not, these economic development incentive packages have not required strong enforceable job or job quality commitments in exchange for these subsidies, essentially failing to generate adequate returns on millions of taxpayer dollars. For example, the State of Wisconsin recently announced a \$3 billion incentive

package to lure Taiwanese manufacturer FoxConn, without obtaining any specific, enforceable job creation or job quality commitments in exchange.<sup>11</sup> The national nonprofit organization, Good Jobs First, has also identified hundreds of subsidy packages that have failed to include concrete commitments to the creation of good jobs and community benefits.<sup>12</sup>

The typical economic development practices also overlook important opportunities to correct major challenges within the manufacturing sector, such as low wage jobs; the exclusion of women, people of color, and other people facing barriers to employment; and the lack of investment in training for people who do not have access to post-secondary education. These practices within the manufacturing sector require intervention so that the sector can realize its potential as a generator of high-quality jobs with equitable accessibility.

### *Manufacturing Has a Job Quality Problem*

While manufacturing jobs historically have been high-quality—with good wages, benefits, and worker protections—current practices are leading to an increase in low-quality jobs within the sector. For one, manufacturers have increasingly been using staffing agencies that pay temporary manufacturing workers lower wages, a reality that the government fails to account for in its data assessing wages in the sector.<sup>13</sup> Trends also show that foreign and domestic manufacturers are locating plants in areas of the United States with weak labor standards and are paying workers less than their wages prior to the Great Recession of 2008.<sup>14</sup>

Unionized workers in manufacturing currently earn about 15 percent more than nonunionized workers, but as of 2016, only 9.4 percent of America's manufacturing workers belonged to unions.<sup>15</sup> Should unionization rates continue to decline, we can reasonably expect that wages in the industry overall will decline.<sup>16</sup> Furthermore, as unions historically have played large roles in hosting apprenticeship and training programs, their decline has coincided with a lack of workers who are adequately trained, which is proving all the more

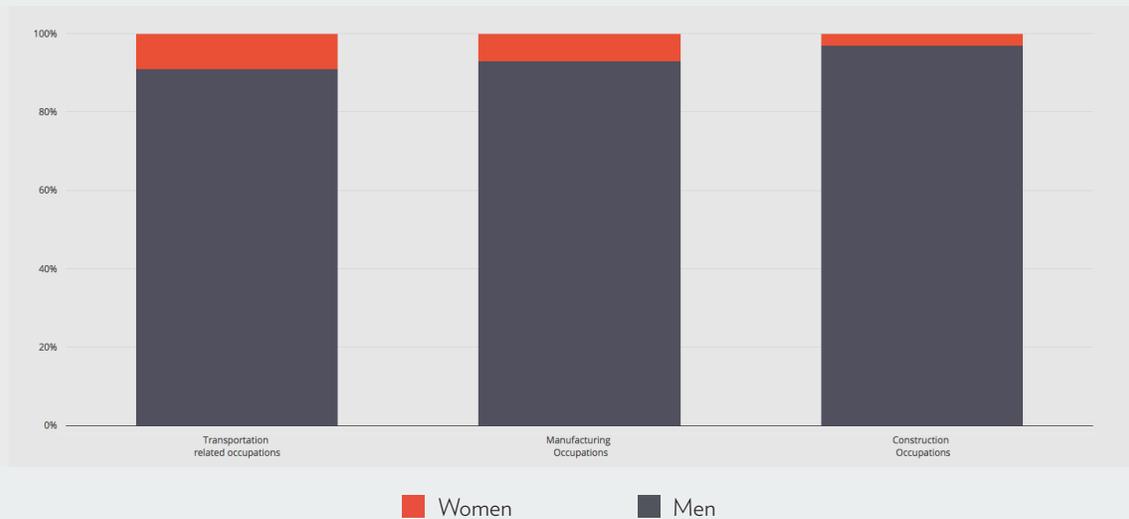
problematic at a time when more and more manufacturing jobs are requiring advanced skills.<sup>17</sup>

### *Manufacturing Has a Job Access Problem*

It is estimated that there will be 533,000 high-quality manufacturing job openings over the next decade.<sup>18</sup> However, women currently comprise only 7 percent of workers in middle-skilled manufacturing jobs, despite women's favorable opinions and demonstrated interest in manufacturing jobs.<sup>19</sup> (see Figure 1 for examples). Women's low representation in the manufacturing sector has not always been the case. While manufacturing production jobs have traditionally been male-dominated, during World War II, millions of women occupied manufacturing jobs. Furthermore, in the 1970s and early 1980s, when Executive Order 11246 expanded the mandate for government contractors to take affirmative action to cover women, employment shares of women of color at federal contractor firms grew substantially. However, this growth began to decelerate in the 1980s after the Reagan administration's steps to weaken affirmative action enforcement.<sup>20</sup> Only under the Obama administration did the number of Department of Labor investigators and compliance officers significantly increase, allowing for a resurgence of affirmative action enforcement. While a greater level of these Office of Federal Contract Compliance Programs (OFCCP) activities resulted in an increase of the share of jobs held by women in the construction industry, the numbers of women in manufacturing jobs declined.<sup>21</sup> Therefore, public policy and strong government commitment to support gender parity within the manufacturing industry are necessary to realize the tremendous potential for women to contribute to this sector.<sup>22</sup>

In addition to women, people of color historically have also been excluded from high-paying jobs within the manufacturing sector.<sup>23</sup> Furthermore, manufacturing decline has disproportionately affected these historically marginalized groups, especially black workers, who due to a long history of systemic racism were more likely to fall into unemployment and poverty following deindustrialization.<sup>24</sup>

FIGURE 1. WOMEN ARE VIRTUALLY EXCLUDED FROM MIDDLE-SKILLED INFRASTRUCTURE JOBS



Source: "Pathway to Equity: Narrowing the Wage Gap by Improving Women's Access to Good Middle-Skill Jobs," Institute for Women's Policy Research, March 24, 2016.

Today, within the U.S. railcar manufacturing industry, for example, and across all education level groups of workers, lower relative percentages of nonwhite and/or Latino people are employed relative to the overall U.S. economy.<sup>25</sup> Transportation infrastructure investments, for one, are therefore generating jobs but are not providing equitable access to these jobs. While this disparity has direct equity implications, it also ignores the talent that could fill skills gaps and the productivity gains that result from diverse workplaces.<sup>26</sup>

Given the current as well as historic exclusion of women and people of color from these job opportunities, the taxpayer investment in infrastructure through government procurement can and should be used by governments as leverage for strategic solutions to include these historically marginalized people, as well as other people who face barriers to employment, such as veterans,<sup>27</sup> people with disabilities,<sup>28</sup> and people reentering the workforce.<sup>29</sup>

The U.S. manufacturing workforce is aging, and the working population in manufacturing will diminish as the baby boomers age and retire.<sup>30</sup> At the same time that this demographic shift is occurring, there are also significant

worker training challenges in the manufacturing sector. Secondary vocational training, particularly training through vocational high schools, has been decimated in the United States, and has been replaced with less affordable alternatives, such as community college programs.<sup>31</sup> Enrollment in manufacturing technology training programs at community colleges and technical schools has decreased.<sup>32</sup> Young people, particularly young women, have a negative view of manufacturing careers.<sup>33</sup> While manufacturing jobs still pay more than alternatives, the gap has shrunk, making it harder to recruit new workers.<sup>34</sup>

In addition, the restructuring of the manufacturing sector over the past thirty years has reshaped manufacturing firms into companies with leaner operations, and most firms no longer invest in or provide training and apprenticeship programs as they once did.<sup>35</sup> This trend has been exacerbated by the increasing use of temporary help agencies to fill entry-level manufacturing positions, which cuts off opportunity for workers to move upwards into more skilled manufacturing jobs.<sup>36</sup> Lastly, manufacturing jobs increasingly require knowledge of new technologies, and workers are not being trained in these technologies.<sup>37</sup> These factors have combined to create what some are calling a crisis; some researchers

estimate that of the 3.4 million manufacturing jobs the United States will need in the next ten years, 60 percent will remain vacant because of a lack of qualified workers.<sup>38</sup>

## The Value of a Strategic, Inclusive Procurement Framework

Taxpayers spend billions of dollars on infrastructure projects every year. Much of this spending goes to private-sector companies through a governmental purchasing process known as public procurement. This money that taxpayers are already spending on manufactured items for infrastructure can achieve greater returns if innovative programs spend these tax dollars in ways that deliver additional benefits to surrounding communities. By using Strategic, Inclusive Procurement (SIP)<sup>39</sup> policies that incentivize the expansion of domestic production, government equipment purchases will not only supply needed equipment, but also create new job opportunities, including for historically marginalized workers, thereby benefitting communities and maximizing the return on public investment.

Strategic, Inclusive Procurement is the concept that governments should do everything possible to realize the maximum return on their investment of taxpayer dollars. A SIP framework enhances the governmental ability to incorporate strategic goals, such as good and responsibly priced equipment, quality job creation, sustainable economic growth, and transparency in public contracting. It also creates an incentive to streamline requirements to focus on the most strategic procurement goals, including the best value for the quality and the greatest economic and environmental impacts.

This framework is not new. Countries have used elements of public procurement to achieve specific socioeconomic objectives, dating back to the late nineteenth century.<sup>40</sup> For example in the United States, the passage of the Public Works Employment Act of 1977 mandated that 10 percent of all procurement dollars awarded under it be used for minority-owned businesses, which began a precedent for expanding contracting preferences in

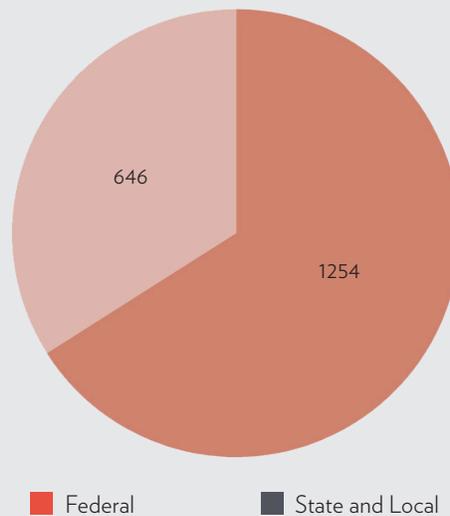
procurement programs across various federal agencies to include women-owned businesses.<sup>41</sup> At the same time, other countries around the world began implementing similar programs, and in the 1990s, countries began to think strategically about using public procurement to advance sustainable development objectives, demonstrating the power of SIP to bring many innovative solutions together under one framework. In the United States, however, while the federal government has deployed procurement policies such as Minority Business Enterprise “set asides” and New Deal job programs, the United States has never followed a systematic, comprehensive use of procurement policy tools. Moreover, such tools have more recently fallen out of favor. A procurement framework that includes a full array of innovative SIP policies—such as, for example, robust job quality goals, the inclusion of historically marginalized workers, and a full consideration of externalized costs—is needed and will be examined below.

## The Potential of Public Procurement to Create Quality Jobs

Currently state, local, and federal agencies spend about \$2 trillion per year to purchase goods and services for public use (see Figure 2).<sup>42</sup> The potential of procurement policies for stimulating economic growth and job creation lies not only in the spending volume, but also in the speed with which the purchasing can be executed. Because governments’ purchasing powers are substantial, and because of the tremendous scale of public purchases, government procurement can be used to catalyze product demand and create upward pressure in manufacturing subsectors. Furthermore, strengthening the local manufacturing sector in turn strengthens local supply chains.

One federal procurement policy that has had a positive impact on the domestic production of steel and manufactured goods related to transportation infrastructure is Buy America. The Federal Transit Administration (FTA) regulates the implementation of Buy America requirements, which apply to purchases made by public agencies receiving federal transportation grants. Per the FTA’s Buy America

FIGURE 2. U.S. PUBLIC SECTOR PROCUREMENT SPENDING BY LEVEL OF GOVERNMENT IN BILLIONS



Source: "Doing The People's Business: Key Competencies for Effective Public Procurement," The Volcker Alliance, June 21, 2016.

webpage, "a Grantee must include in its bid or request for proposal (RFP) specification for procurement of steel, iron or manufactured goods (including rolling stock) an appropriate notice of the Buy America provision and require, as a condition of responsiveness, that the bidder or offeror submit with the bid or offer a completed Buy America certificate in accordance with 49 CFR §§661.6 or 661.12."<sup>43</sup> In the case of highway construction, only manufactured goods made of 90 percent iron or steel are covered, while in FTA projects, all manufactured goods are covered.

Buy America provisions are crucial to supporting the domestic steel and iron industry, as well as U.S. manufacturing jobs in rolling stock. In the face of periods of dumping of low-cost steel into the market by China and other nations, Buy America provisions support an overall steel and iron industry that contributes more than \$93 billion annually to the U.S. economy, directly employs 150,000 workers, and supports over a million jobs.<sup>44</sup> One-quarter of all steel produced in the United States goes to construction projects, illustrating the value of Buy America to this industry.<sup>45</sup>

Buy America provisions are particularly critical for U.S. steel manufacturing, which is concentrated in the latter "hot" stages of forging steel. Considerable lobbying has sought

to weaken the current rules into a substantial transformation standard that would allow steel forged elsewhere but finalized here to qualify as American-made. These efforts have been rejected but are likely to resurface. Buy America has in fact been strengthened at the state level—between 2012 and 2017 alone, Maryland, Texas, Minnesota, New Hampshire, New York, Illinois, Pennsylvania, and Colorado have passed domestic preferences for state-level procurement not covered by federal Buy America.<sup>46</sup>

Despite the potential for government purchases to contribute to domestic high-road economic development, this spending has not been robustly tied to job quality or the inclusion of historically marginalized workers. While Buy America captures domestic component sourcing, it does not capture job numbers or job quality. Furthermore, even though this policy was significantly improved in the 2015 Surface Transportation Act (also known as the FAST Act),<sup>47</sup> this policy is still inadequate because the domestic content standards are too low, monitoring and enforcement standards are too weak, too many waivers are granted, and lowest-price standards are too narrow.<sup>48</sup> Additional expansions to Buy America proposed include subjecting manufactured goods purchased for highway construction to the same stringent provisions as rail projects; and extending

Buy America to other forms of infrastructure, such as clean energy and water infrastructure.<sup>49</sup>

Finally, absent from the dominant U.S. procurement framework of evaluation of costs is an assessment of the spillover benefits that arise from awarding contracts to firms employing people in the United States and paying above-median wages. Also absent are the negative externalities that arise from awarding contracts to firms with overseas manufacturing jobs, such as increased spending on public safety net programs for U.S. workers affected by that purchase choice.<sup>50</sup> Therefore, there is a need to reframe the current “cheapest is best” approach of procurement to one that uses a strategic definition of “best value,” so that governments can purchase high-quality equipment and realize the economic impact of using taxpayer dollars to create good jobs and promote access for all.

## Areas of Growing Public Purchasing

Because of government’s ongoing needs, public purchasing will continue to create demand for manufactured products. However, manufacturing is also an area in which spending is not just constant, but is growing. For example, increased demand for mass transit and new sustainability and safety initiatives require new technology and new manufactured products.

### *Public Transportation Infrastructure*

Specifically, the production of equipment related to transportation and infrastructure has a unique potential to expand manufacturing employment. For example, local and state governments purchase new rail cars, buses, and other transportation equipment because they are either expanding or replacing old equipment.<sup>51</sup> These local and state government purchases have the ability to promote the growth of this domestic manufacturing sub-sector.

In addition to the normal purchases needed to maintain regular public transportation services, the demand for transportation manufacturing has also been fueled by a renewed commitment to public transportation, as several

rail and bus services are experiencing record years in both ridership and revenue.<sup>52</sup> From 2003 to 2012, the average capital expenditure on bus and rail purchases alone was \$4.6 billion per year, resulting in 29,100 domestic jobs.<sup>53</sup> In 2014, total capital expenditures on bus and rail, excluding heavy rail, was approximately \$11.72 billion.<sup>54</sup> While Original Equipment Manufacturers (OEMs) commonly design trains and buses, and carry out car shell production, investments in OEMs also mean opportunities for the supply chain companies delivering the components and materials needed by the OEMs. Large public works projects, such as New York City’s \$10.2 billion East Side Access project, hold the potential to support job creation and retention not only for OEMs but also for a multitude of supply chain businesses, including businesses that design and build railroad tracks, for example.<sup>55</sup> Furthermore, there has been a growth in the percentage of public transportation vehicles with equipment such as two-way radios, automatic vehicle location equipment, public address systems, automated stop announcements, passenger-operator intercoms, exterior bicycle racks, and closed-circuit cameras.<sup>56</sup>

However, companies continue to manufacture significant portions of our transportation infrastructure overseas, bypassing unemployed Americans and struggling communities. By changing procurement policies to require greater domestic content minimums, the creation of good jobs, greater access for historically marginalized workers, and training, federal investment in public infrastructure could significantly increase the number of high-quality domestic manufacturing jobs.<sup>57</sup>

### *High-Speed Rail and Positive Train Control Systems*

Federal, state, and regional high-speed rail investments are another growing area of procurement, particularly with an increased focus on the importance of Buy America laws that require a large percentage of the equipment and steel to be domestically produced.<sup>58</sup> States such as Illinois and California are heavily investing in rail improvements to increase safety and accommodate the operation of higher-speed passenger trains.<sup>59</sup> This state funding is further being supplemented by federal funds. For example, the federal government has

recently approved \$650 million for the San Francisco Bay Area Train System, which will provide electrified rails for future bullet trains in California to share and will generate 9,600 jobs in half a dozen states.<sup>60</sup>

These investments could not only create jobs directly through OEMs, but could also strengthen local supply chains. In fact, current Midwest rail supply chain businesses, after years of supplying the automotive industry and other sectors, are re-tooling their old-line manufacturing products and supplying rail manufacturers with materials such as automotive glass, seats, and other components.<sup>61</sup> These investments are further being coupled with new regulations, which in turn spur the manufacturing of new technologies for infrastructure and safety signaling. One such regulation is the congressional requirement that certain railroad main lines implement positive train control, necessitating the purchase and use of communication-based/processor-based train control technology. The Federal Railroad Administration has provided \$650 million to railroads that carry passengers and a \$1 billion loan to the Federal Transit Administration to apply towards the purchase and installation of these systems.<sup>62</sup>

### *Clean Technology*

State renewable power standards are driving municipalities to purchase clean technology and, in the process, creating demand for clean energy equipment manufacturing of a wide range of clean energy products.<sup>63</sup> Following the Trump administration's decision to pull the United States out of the United Nations Paris climate accord, these investments are only growing larger, with New York's response being a massive clean energy procurement of \$1.5 billion in renewable energy projects projected to create 40,000 jobs by 2020, for example.<sup>64</sup> Furthermore, clean transportation technology specifically, such as electric buses and trucks and their related charging infrastructure, is a growing area for public purchase of new high-tech equipment that can be used to yield substantial environmental impacts. Transit agencies' demands to respond to climate change and the increasing technological capacity to produce renewable buses are catalyzing the manufacturing of this equipment

and have the potential to generate thousands of new jobs in the process.<sup>65</sup>

Other environmental protections can further increase the demand for the manufacturing of clean technology, especially when tied to procurement. The Buy Clean California Act is an industrial climate procurement policy which, if passed, would require consideration of the carbon footprint of materials used in state-funded infrastructure projects, including steel, glass, iron, and brass.<sup>66</sup> As a consequence, local California steel mills would be more likely to win contracts because they are cleaner due to state emissions limits and the shorter transportation distances for materials. By increasing demand for California steel through the state's estimated \$10 billion annual infrastructure spending over the next decade, the government can spur the development of new technologies, support local manufacturing, and discourage companies from shipping operations and jobs overseas.<sup>67</sup> This would not be the first time that environmental protections in the state have successfully induced demand for manufacturing through procurement. For example, following the enactment of environmental quality standards, the state now provides significant funding for school bus replacements as part of emissions and air quality control.<sup>68</sup>

## **Building a Policy Framework to Harness Strategic, Inclusive Procurement**

Given the enormous potential for procurement to revitalize the manufacturing sector, bringing innovative procurement-tied solutions together, including economic development incentives and community benefits agreements, under one industrial policy framework forms a comprehensive program for revitalizing high-quality manufacturing jobs in the United States.

### *Strategic, Inclusive Procurement Using the U.S. Employment Plan*

Jobs to Move America, a national coalition focused on ensuring that public transit dollars are spent in ways that

provide good jobs, has supported the development of policy tools—including the U.S. Employment Plan (USEP)<sup>69</sup>—that can harness government spending not only to revitalize the manufacturing sector, but also to do so equitably. The USEP was developed by Jobs to Move America, a team of economists and academics, in collaboration with a legal task force from the U.S. Department of Transportation, which has encouraged the use of the USEP by federal grantees.<sup>70</sup>

The USEP is a voluntary program that transportation agencies can include as part of their request for proposals (RFP) process and evaluation criteria. The RFP process of procurement provides an incentive to manufacturers who use the USEP in their bid to make proposals regarding the number and quality of domestic jobs that they intend to create or retain. Following the receipt of the bids containing the manufacturers' job commitments, the USEP provides an objective evaluation system by which agencies award points or price credits to manufacturers based on the robustness of their U.S. manufacturing jobs proposal, investment in domestic manufacturing facilities, and commitments to recruitment and training for people facing barriers to employment. In this way, transportation agencies, cities, and states can reward transportation manufacturing companies that volunteer to create domestic manufacturing jobs and hire from historically marginalized groups. Finally, the USEP ensures transparency and accountability of U.S. jobs commitments through contract and enforcement language.

The USEP has succeeded in or is currently attached to developing projects in cities such as Chicago, New York, and Los Angeles, and has created domestic jobs that include historically marginalized people.<sup>71</sup> For example, in 2012, Los Angeles Metro attached the USEP to a procurement RFP for light rail, and eventually awarded an \$890 million contract to Japan-headquartered railcar manufacturer Kinkisharyo, which committed to create 250 jobs and locate a new facility in Los Angeles County to make their USEP proposal more competitive. Since the awarding of the contract, Kinkisharyo has expanded its assembly facility in northern Los Angeles to include car shell production, the first time that the company has brought this sort of high-value manufacturing

from Japan to the United States. This factory has added 404 jobs, with an average wage of \$21 per hour.<sup>72</sup> Additionally, Kinkisharyo's workforce reflects the diversity of Los Angeles County and includes groups who have historically faced barriers to this industry, such as women, returning citizens, and veterans.<sup>73</sup>

### *Community Benefits Agreements (CBAs)*

In regions that have used the USEP in their equipment procurement, community and labor coalitions have also successfully negotiated community benefits agreements (CBAs) with winning bidders, helping to institutionalize new job and economic development commitments. CBAs are enforceable contracts negotiated between manufacturers and community and worker groups that can include innovative solutions to challenges in finding qualified workers, providing ongoing training, and dealing with worksite challenges, such as access, safety, and childcare.<sup>74</sup> CBAs can also create a dependable source of well-trained employees to meet a company's need for new workers and offer the community an opportunity to negotiate the inclusion of local residents in jobs created by the procurement.

Chicago's 2016 award of a \$1.3 billion "L" train contract to CRRC, which included the USEP, resulted in a new factory in southeast Chicago, and a CBA to develop its workforce. This renewed production of rail cars in Chicago represents the first time in over three decades that unionized rail car manufacturing jobs have existed in the area, continuing a long legacy since the Pullman factory began production 150 years ago. As required by the USEP, the factory will employ at least 169 factory and warehouse workers, and approximately 200 construction workers to build the facility.<sup>75</sup> To develop a well-trained and inclusive workforce, CRRC signed a community benefits agreement which guarantees support for South Side Chicago residents. Through the development of an apprenticeship and training program, the partnership between this company and the Jobs to Move America coalition, which includes labor and community groups, will create a pipeline into manufacturing jobs.

While the USEP encourages manufacturers to sign CBAs, the ability of these agreements to effectively create a jobs pipeline has incentivized manufacturers to sign them even outside of the procurement. For example, in Los Angeles, electric bus manufacturer BYD, recent awardee of a \$48 million contract with Los Angeles Metro, signed a CBA with SMART Local Union 105 and Jobs to Move America. The company and these community organizations signed the CBA after independent negotiations that took place separately from the formal bidding process. This CBA includes commitments to deep investments in pre-apprenticeship and training programs, with a target of 40 percent of its eventual workforce consisting of historically underrepresented people.<sup>76</sup> Furthermore, the union workers will build the electric buses in Lancaster, California, a city that has one of the largest populations of individuals in the county who have been released from the penal system and who will now have access to high-quality manufacturing jobs.<sup>77</sup>

### *Linking Economic Development Incentives to Contracts to Purchase Manufactured Equipment*

A program that couples Strategic, Inclusive Procurement policies, such as the USEP, with targeted economic incentives can be a way to create greater investment in deep manufacturing capacity in areas suffering from major disinvestment. In the case of the new Chicago railcar factory described above, the winning bidder chose to locate its new factory in the South Side of Chicago, an area suffering from high poverty and a black unemployment rate near quadruple that of whites, after learning about the availability of land and local and state economic incentives.<sup>78</sup> The company expects to hire up to 169 local workers from Chicago.<sup>79</sup>

### *Transparency and Open Records*

In addition to increasing domestic access to manufacturing jobs and providing opportunities for historically marginalized groups, a high-road manufacturing job creation program must ensure transparency and accountability, if there is to be any hope of demonstrating the program's success

and replicating it elsewhere. Such transparency and accountability is often difficult to achieve, as companies have been able to withhold public information by claiming that such information, such as workers' wages and benefits, is a "trade secret."<sup>80</sup> However, pay secrecy is actually harmful to workers, as it serves to perpetuate disparities between the earnings of men and women, for example.<sup>81</sup> Furthermore, manufacturing job wage and benefit information for awarded public procurement contract bids are subject to federal and state wage open records laws that permit employees to disclose their wages, which makes dubious the proposition that this information could be a trade secret. Ultimately, claims of trade-secret protection must give way to the public interest in transparent government, as the public interest is far better served by disclosure and outweighs private competitive interests.<sup>82</sup> Transparency on all public decisions, including procurement and economic development, is necessary so that taxpayers can ensure that companies making commitments to create good jobs can be held accountable to their commitments.

### *Holding Contractors Accountable*

The willingness of government officials to fully hold manufacturing companies accountable for their actions has had direct implications for the quality of the jobs created by our taxpayer dollars.<sup>83</sup> The importance of this accountability is clearest in cases where companies that have received taxpayer-funded contracts or subsidies have violated health, safety, security, and environmental laws, or failed to follow through with their promises.<sup>84</sup> Such cases help to illustrate the importance of a comprehensive accountability program in order to achieve the desired results from public investment.

One such example is Nippon Sharyo, a manufacturing subcontractor of Sumitomo Corporation, which has been awarded at least \$1.3 billion of locally and federally funded railcar contracts with U.S. public transit agencies. While Nippon Sharyo established a new facility in July of 2012 in Rochelle, Illinois to meet a federal government requirement that the railcars be manufactured under a 100 percent Buy America plan, the benefits of such domestic manufacturing

production have gone largely unrealized because of the failure of public agencies to enforce the job creation, training, and responsible contracting provisions of the various contracts.<sup>85</sup> To achieve the desired job creation and job quality results, public agencies must take the contractual promises made by manufacturers seriously and use all of the enforcement remedies available to them through the terms of public contracts and local, state, and federal law. In the cases where good job commitments are part of purchasing contracts or major public subsidies to manufacturers, public agencies can and should take all appropriate actions, including withholding payment to manufacturers that fail to comply with the promises made.

Through making public procurement more transparent and insisting that public officials enforce all of the contractual promises made by manufacturers receiving public contracts and economic development subsidies, community and business groups, the media, and the public can take the means necessary to ensure that our powerful taxpayer dollars are being used responsibly to re-build high-road manufacturing jobs in the United States.

## Putting It All Together to Build a High Wage Manufacturing Sector in the United States

Public-sector participation in industrial development and reviving manufacturing is essential. The examples cited in this report show that, with the right strategies in place, public procurement can encourage growth of, access to, and training for the high-quality manufacturing jobs our communities need.

When tools such as Strategic, Inclusive Procurement policies and mechanisms for accountability and evaluation of results are added to the existing body of tax incentives, targeted subsidies, and public investment in research and development, high-road jobs can be achieved. In order to realize socially valuable alternatives to the status quo of offshoring, state and local governments can subsidize factories that offer stable, quality jobs and make strategic

procurement decisions, which will in turn create demand for these factory products.

On a wider scale, a federal industrial policy that includes Strategic, Inclusive Procurement policies could expand national manufacturing output and more strategically direct the geographic footprint of manufacturing, restructuring the landscape in which, currently, local governments compete with one another in a race to the bottom and manufacturers hold all of the power in deciding where to locate.

These tools presented in this report are known and available, but have not been widely used. Deploying these tools strategically and proactively can provide companies incentives to make the right choices for U.S. manufacturing workers and their communities. If state and local governments embrace these measures, and they are up-scaled to the federal level, they can achieve high-road employment and job creation, while reenergizing the U.S. manufacturing sector.



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