



## **The Need for a Balanced, Diversified and Value-Driven Approach to Job Creation Within the Commonwealth**

Submitted to:

House Republican Policy Committee for Hearing on August 24, 2011

Submitted by:

Eric Joseph Esoda, CPA, Executive Director of the Northeastern PA Industrial Resource Center

Good Morning. My name is Eric Joseph Esoda and I am the Executive Director of the Northeastern Pennsylvania Industrial Resource Center, or "NEPIRC". NEPIRC is one of seven (7) Industrial Resource Centers strategically positioned throughout the Commonwealth of Pennsylvania to improve the competitiveness, productivity, profitability and long-term viability of the Commonwealth's 16,000+ small- and mid-sized manufacturers.

I would like to thank Representative David Reed, Representative Tara Toohil, and all members of the House Republican Policy Committee for inviting me here today so that I can share with you the opinions of our regional manufacturers with respect to job creation and workforce development. I would also like to thank the veteran Committee members for their role in supporting the Commonwealth's prior investments in the Industrial Resource Center (or "IRC") Program. Despite a significant reduction in IRC Program funding last year, NEPIRC services enabled our clients to create 310 new jobs and retain 1,357 existing over the past 12 months.

Unfortunately, the Commonwealth no longer funds the IRC Program directly. However, we remain hopeful that we will be able to continue our mission as the only Commonwealth program dedicated *exclusively* to improving and growing the manufacturing sector of our economy through other avenues of Commonwealth funds.

On behalf of our regional manufacturers, I carry a message that encourages the Commonwealth to adopt an approach to job creation that is:

- **Balanced** in terms of its focus on new enterprises, emerging industries and existing businesses;
- **Diversified** in terms of providing both training subsidy programs and consultative service assistance programs; and
- **Value-driven** in terms of focusing on the kinds of jobs that create the most benefit for the Commonwealth and its citizenry.

## Balance

Our region's manufacturers stress the need for a job creation strategy that is respectful of existing businesses and the roles they play in generating tax revenue for the Commonwealth, creating new employment opportunities, and fueling local economies. While they agree that encouraging new business start-ups across all industries and supporting new, emerging economies such as the Marcellus Shale extraction industry, should be important aspects of our Commonwealth's economic development and job creation strategies, they also humbly remind the Committee that existing businesses, and in particular existing manufacturers, are deserving of special initiatives aimed at capitalizing on their ability to, and their desire to, grow jobs.

It makes intuitive sense that existing manufacturers, which provide the Commonwealth with an abundance of tax revenue each year, account for over 90% of all Pennsylvania exports, employ one (1) out of every nine (9) working Pennsylvanians and one (1) out of every six (6) workers in rural regions of the Commonwealth, and collectively constitute the fourth (4<sup>th</sup>) largest employment sector within Pennsylvania, receive industry-specific support as part of the Commonwealth's overall job creation strategy. What many may not realize, however, is that there is data to support the notion that growing regional small- and mid-sized manufacturers should not just be a *component* of our job creation strategy but, instead, should be the *main area of focus*. For example:

- Innovation fosters job growth, and manufacturing fosters innovation – as evidenced by the fact that over 60% of all U.S. patents issued to Pennsylvania-based businesses and universities during the period of 2001 through 2010 were issued to manufacturers;
- Companies will hire as they emerge from the recession, and many manufacturers have already weathered the storm – as evidenced by the fact that during the recessionary years of 2006 through 2008, Pennsylvania manufacturers who entered the recession with between 250 and 500 employees actually INCREASED their employment levels;
- Manufacturing is returning to the United States – as evidenced by the fact that over 25% of companies surveyed by MFG.com in February of 2011 stated that they were moving their business back onshore; and
- Numerous studies prove that the most efficient means of creating jobs is to work with existing companies to expand their capabilities, revenues and profits, including a 2011 study that confirmed that 71% of job growth in the U.S. from 1990 through 2008 came from the expansion and growth of existing companies.

The launch of new businesses, the opening of new incubators, maximizing the boon created by our Commonwealth's natural resources – those are all integral to the long-term success of any job creation initiative. But job creation is not only about ribbon-cutting and well-drilling. It's about growing the businesses that are already competitive, already productive and already poised for growth in Pennsylvania.

Addressing the specific needs of Pennsylvania's largest business sector in terms of Gross State Product (GSP) will yield dramatic job creation benefits in the years ahead.

## Diversity

Our region's manufacturers encourage you to consider a job creation and economic development approach that is diversified and includes Commonwealth support for programs and initiatives that foster their *profitable growth* as a means of creating jobs, rather than an approach that strives to create jobs simply by providing subsidies and grants for workforce training.

It is true that manufacturers are currently struggling to fill the job openings they offer. They simply cannot find job candidates that possess the skill sets they need. In these cases, workforce training subsidy and grant programs, like WEDNet, Industry Partnership programs, and Customized Job Training programs, provide a means through which an employer can affordably improve the skill sets of existing workers or new hires. Your manufacturing constituents appreciate your continued funding of those programs.

However, while those subsidy and grant programs represent ways in which the Commonwealth can help manufacturers fill *existing* job openings, they do little to create *new* job opportunities. They are *job fillers* – *NOT job creators*.

As one manufacturer stated – “We don't hire people because we're subsidized to do so. We hire people because we're profitable and we're growing.”

Profitable growth *is* the catalyst for sustainable job creation. Therefore, the Commonwealth should adopt a diversified portfolio of economic development investments that provides immediate incentives for companies to fill existing job openings and train new hires, but also supports organizations, like the Industrial Resource Centers, that work closely with companies in a consultative way to help them gain entry into new markets, increase their sales and expand their operations which, in turn, creates new jobs.

## **Value-Driven**

With our regional unemployment level being among Pennsylvania's highest, our manufacturers understand the Commonwealth's need to create new jobs whenever and wherever possible. Their entrepreneurial spirit enables them to take great joy, just as you do, whenever they see a new employment opportunity created within their communities. They believe that there's no such thing as a "bad" new job.

However, they also understand that not all jobs are created equal. Some jobs, simply put, are superior to others because they pay more, offer more benefits, provide a larger opportunity for advancement, or are more reliable over the long term. Our manufacturers encourage you to take a value-driven approach to job creation – one that places emphasis on the careers that generate the highest and longest-lasting benefit to individual workers, their families and the towns in which they live.

Manufacturing jobs remain among the best in the Commonwealth.

Statewide, the average manufacturing job provides a base annual salary of \$52,204. Within northeastern Pennsylvania, the average manufacturing wage of \$44,777 per year is over two-and-one-half (2.5x) times that of the food service industry, nearly twice that of the retail industry and over \$10,000 more per year than the average logistics and transportation industry wage. Furthermore, most manufacturing jobs provide healthcare benefits, a retirement savings account and some level of tuition or learning reimbursement for employees.

As a result of its high wages, the manufacturing industry enjoys the highest multiplier of any industry in Pennsylvania, meaning that it has the most beneficial impact upon ancillary jobs and Pennsylvania communities.

Lastly, after numerous studies, the general consensus among chief economists and researchers is that a job created by an existing company is anywhere from one-and-one-half (1.5x) to three (3x) times as likely to still exist after five (5) years of being created when compared to a similar job created within a start-up company.

Given all of these facts, the value-driven decision is clear – manufacturing jobs must be among the Commonwealth's top priority. They provide family-sustaining wages, excellent benefits, the greatest regional derivative benefit and have the highest likelihood of being sustainable over the long-term.

## In Closing

In closing, the message from our manufacturers is clear. When considering the Commonwealth's many possible approaches to job creation in the years ahead:

- Seek a **balance** between encouraging business start-ups, capitalizing on emerging industries and leveraging the strength of Pennsylvania's current driver industry - *manufacturing*;
- **Diversify** the Commonwealth's investment in job creation by supporting programs, such as the Pennsylvania Industrial Resource Centers, that seek first to grow company sales, profit margins and total profits which, in turn, creates sustainable job growth; and
- Maximize the Commonwealth's return by making **value-driven** decisions regarding the kinds of jobs that are created, using average wages, industry multiplier effects, long-term job sustainability metrics and other measures as your guide.

Manufacturers are enthused about the job creation initiatives and opportunities that lie before you. Collectively, they wish you every bit of success. Believe me when I say that each and every manufacturing executive I've spoken to has asked me to extend to you a personal invitation to meet with them one-on-one to discuss these matters further and explore how they can help.

On their behalf, I thank you for allowing their perspectives to be heard today. Thank you.