Manufacturing is The Engine of Growth and Economic Diversification

The shift to the so-called digital economy has hollowed out the US economy away from manufacturing. Manufacturing is hard in the best of times. However, manufacturing provides larger numbers and much better paid blue-collar workers. Most importantly over the long run is manufacturing provides the best balance-of-trade for a region, state, and country, which in turn generates the highest quality-of-life.

THE one critical driver for manufacturing small business startups and emerging companies is to avoid overwhelming their time and resources with issue or activity that does not advance a company towards positive cash flow. The US had many manufacturing startup successes decades ago where a startup became a large NASDAQ listed profitable manufacturer providing many well-paid employees. These companies not only produced great products, but also exported some or most of those products; thus, improving the US balance-of-trade. Personal involvement as a founder, executive and board member at several manufacturing companies has illustrated a trend where the overhead percentage of gross revenue expended for legal, accounting, corporate insurance and reporting requirements continue to increase each year in emerging manufacturers.

This overhead increase is mainly due to regulation from cities, counties, states, and federal agencies that each pile on more and more demands for reporting and controls. This requires much greater capital per company to achieve the same success rates and return-on-investment (IRR) as several decades ago. The result of these factors has caused both entrepreneurs and investors to shun new and emerging manufacturing companies in the US. Large companies may claim to deplore regulatory burdens but have realized that regulations prevent new competition and enable near monopoly status.

At the same time, cities have had their cores hollowed out with older manufacturing companies fleeing to lower cost areas, frequently outside the US. Worse still is the majority of remaining companies outsource most or all manufacturing to lower-cost emerging countries. This has become abundantly clear during the Covid-19 epidemic where we have learned that all personal protective equipment for health-care workers is made outside the US as well as ventilators used in hospitals. Also evident is that many pharmaceuticals are made outside the US and nearly all pharmaceuticals source one or more critical ingredients from outside the US.

Therefore, it is essential that at least certain types of manufacturing return to the US. In most cases, US manufacturing could be lower cost than any emerging country if there were equal regulatory and legal systems. The US has better trained workers and superior automation. Since the US cannot impose its legal and regulatory systems that increase overhead onto other countries, the approach needed is to reduce the legal and regulatory burden for US small businesses to attract both entrepreneurs and investors. The US should focus this effort in areas with sufficient populations and infrastructure to enable small businesses to have the opportunity to become large businesses over the course of a decade or so. As these small companies grow beyond the SBA's small business category, regulatory demands can be increased with size and over time.

The following 1-page outlines a starting point to enable entrepreneurs to build a new round of US manufacturing companies.

Create Manufacturing Entrepreneur Zones in Urban Zones

Step 1 – Limit Regulation for manufacturing companies inside these zones that meet SBA requirements for a Small Business Designation.

- Each of listed agencies can produce a set of regulations that are 10 pages or less.
- Regulations must be self-contained with no external references, links, or inclusion by reference to other documents such as FARs, DOT, DOE, or other documents.
- Regulations must be printed in 11-point font or larger on Letter sized paper with 1-inch margins
- Federal regulations limited to short lists from no more than 10 federal agencies that are selected by the SBA as suitable for each type of business.
- State regulations are limited to short lists from each of 3 state agencies selected by the state's top commerce regulator
- County regulations limited to one list from 1 county agency selected by the county.
- Municipal regulations are limited to 1 list from 1 municipal agency selected by the city.

Step 2 – Small Business Tort Reform - Limit legal liabilities of startup and emerging manufacturing entities to actual damages plus no more than $100K for any and all legal claims from product liability, employment, class actions or any other legal issue.

Step 3 – Provide a manufacturing startup permit process that be completed within one month for even the most highly-complex manufacturing process which uses toxic or flammable materials. Permits must cover any transportation or storage for those materials.

Step 4 – When government approvals are required by a government agency for materials, processes, or manufactured product certification, each government agency shall provide a process and an ombudsman that is available at the company site each week as needed to guide the company on how to accelerate approval by the agency which must be final within 90 days.

- When an agency requires independent 3rd party testing and verification (such as FCC for a wireless product), the agency shall arrange to have an approved 3rd party perform that testing and verification within 30 calendar days and provide 50% of the cost of 3rd party testing and verification.
- If a company requires testing on human subjects, the government agency shall provide an actual sample of a successful plan and process (redacted if necessary) and assist through an ombudsman in developing a plan acceptable by the appropriate agency(s) for each new applicant that meets SBA size qualifications.

Step 5 – Establish an SBA program that provides one-to-one matching for funds provided by financial investors who are independent to and unrelated to a company investment. Direct government investing has proven to become political with the results have been dismal - or worse. A better approach is to partner with investors who are skilled at picking the (a) best concept to fill a specific market need; (b) led by superior management that are (c) ideally suited for that particular concept – and put in their own funds.