Foreign Investment and Healthcare

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The electric power industry and many state and local communities have a long history of welcoming and promoting globalization, particularly in encouraging the development of our industries' substantial U.S. manufacturing base. Non U.S.-based firms such as Alstom, ABB, Mitsubishi Electric, The Wood Group, Toshiba, Siemens, Hitachi, Gamesa, Areva, Eficec, and my own company, Mitsubishi Heavy Industries, have made deep and long-term investment commitments in American manufacturing capacity. The electric power and energy related units of these firms employ over 38,000 American workers, supporting local customers and local communities as engaged participants.

Our industry has been severely impacted by healthcare cost advances, rising 87 percent since 2000, as compared to a same-period inflation rate of 17 percent. Higher employer and employee-borne health insurance costs, government deficits and new taxes are projected consequences of the healthcare program recently enacted into law.

The unintended result of the U.S. becoming a less competitive home for incremental global investment in manufacturing should be front and center in the national dialogue on private versus public sector management of healthcare.

How critical has offshore investment been to the U.S. economy at large? A few key facts: a $2.9 trillion inflow of foreign investment has landed here accompanied by the creation of 5.3 million associated jobs, with $1.6 trillion of this investment occurring during the past 10 years. This investment comprises 4.5 percent of all private sector employment and a $364.2 billion annual payroll.

This investment has been heavily focused in manufacturing. Eleven percent of all manufacturing jobs in the U.S. are with foreign firms, with total annual tax payments aggregating $50 billion, up 18 percent since 2007. Wages paid by foreign firms are 34 percent higher than the U.S. average, at $68,000 per person per year. Offshore owners are heavily committed to company sponsored, socially responsible, private insurance programs. A full 97 percent of U.S. manufacturers provide employer sponsored healthcare coverage, according to data supplied by the National Association of Manufacturers.

Globally positioned offshore investor firms have a high predisposition to participate in international trade, weaving new facilities into their global supply chains. The result is they account for 21 percent of U.S. exports. Given our national trade deficit of $725 billion, global firms with U.S. capacity provide a strong offset to the deficit.

Should nominal total employment costs rise by the 12 to 20 percent projected by some as a consequence of the new healthcare law, the U.S. may lose a share of the appeal it had for the capital of global manufacturers. Limits on healthcare spending accounts, medicare withholding cost increases, mandated coverage requirements of adult children and the loss of deductibility of pre-medicare age post-retirement healthcare stipends only add to our collective costs.

International manufacturing investors seek in markets they intend to invest in for the long term a highly skilled talent pool at competitive cost levels; a stable monetary system yielding predictable local country financial results; stable and globally competitive interest rates; tax policy that is predictable, stable and competitive with other potential host countries; and a fungible and active market for the goods and services they provide.

These attributes, along with strong local support, resulted in our firm's decisions to site major facilities in Orlando, Fla., Newport Beach Calif., Savannah, Georgia, Houston and now Fort Smith Ark.

To the extent that unit labor costs and the monetary system here become unstable and tax policy becomes unpredictable, the assignment of a "country risk" premium may be added to other business risk criteria where site selection options are evaluated.

At the core of decisions to invest here are evaluations contrasted against continuing to export from the host country, with comparative unit labor cost and attendant efficiency at the core of the decision process.

It is a paradox that the growth rate of invested capital in the U.S. manufacturing sector has been much higher by international firms than by equity sponsored by Wall Street-financed firms over the past 20 years. Only in the past five years or so has Wall Street become re-acquainted with manufacturing as a high value, high tech proposition worthy of capital flow. The continuance of offshore investment, due to its long-term nature, the job growth and tax base it creates and its favorable impact on the balance of trade, is nothing but positive for the country.

Were strategies developed to prioritize attracting investment in value added manufacturing as a fundamental objective, a paradigm shift would occur that would place in an entirely different perspective decisions on subsidized insurance, its attendant $450 billion cost and its possibly destabilizing impact on our monetary system.

Many of our electric utility customers are citing the phenomenon of "industrial demand destruction." To reverse this trend, let's keep looking at ways to encourage the historic high rate of manufacturing investment, by keeping the U.S. a competitive and low-risk environment for added commitment by all manufacturers.