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THE SUPPLY CHAIN CRISIS AND THE IMPLICATIONS FOR SMALL BUSINESSES

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP

OF THE

UNITED STATES SENATE

ONE HUNDRED SEVENTEENTH CONGRESS

SECOND SESSION

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ONE HUNDRED SEVENTEENTH CONGRESS

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THE SUPPLY CHAIN CRISIS AND THE IMPLICATIONS FOR SMALL BUSINESSES

WEDNESDAY, MARCH 30, 2022

UNITED STATES SENATE,
COMMITTEE ON SMALL BUSINESS
AND ENTREPRENEURSHIP,
Washington, DC.

The Committee met, pursuant to notice, at 1:46 p.m., via WebEx in Room 215, Dirksen Senate Office Building, Hon. Benjamin L. Cardin, Chairman of the Committee, presiding.

Present: Senators Cardin, Cantwell, Shaheen, Hirono, Hickenlooper, Paul, Rubio, Risch, Scott, Ernst, Young, and Hawley.

OPENING STATEMENT OF HON. BENJAMIN L. CARDIN, CHAIRMAN, A U.S. SENATOR FROM MARYLAND

Chairman CARDIN. The Small Business Committee will come to order. Let me just alert everyone that the floor schedule is a little bit up in the air. We were supposed to have started the third vote of the morning 15 minutes ago, and we are still on the first vote of the morning, so—and it is my understanding we might have to have the Vice President on the floor, which could cause a little more of a delay, so we are going to try to keep the hearing moving forward.

There is an all-Senators classified briefing on Ukraine I think at 3:00 this afternoon, so we are going to do our best to keep the hearing moving forward.

I also just want to acknowledge, earlier today, I was with Vice President Harris on an announcement that she made in regards to a partnership with the Greater Washington Committee that deals with this region in regards to opening up opportunities for minority businesses and minority entrepreneurship. It was a very healthy discussion, and the Administration announced changes in the 7(a) Community Advantage program, which I strongly support, extending the pilot program and expanding its reach. So there was some good news today.

Onward to today's hearing, let me welcome all of our witnesses. Today's hearing will examine how the prolonged disruption in the global supply chain has affected American small businesses as well as the role that small manufacturers can play in our efforts to build more resilient supply chains and reshore production of some of our most critical products and technologies.

Based on my conversations with Maryland small business owners in recent months, supply chain disruptions are currently their biggest challenge. I was proud to host Spencer Jones, who owns Chick and Ruth's Delly, iconic restaurant in Annapolis, as one of my guests for President Biden's State of the Union Address earlier this month. When I spoke to Spencer after the speech, he said that the supply chain disruptions, along with rising inflation, are the two biggest issues facing his business.

As we begin this hearing, it is important for us to remember that the inflation we are experiencing and the supply chain disruptions are linked. When factories close, when products sit in shipping containers and ports, when production capacity decreases due to sick employees, and when products take longer to get from warehouse to store, prices go up. This problem is affecting all sectors of our economy.

A recent survey conducted by the U.S. Chamber of Commerce and MetLife found that 6 out of every 10 small businesses surveyed have experienced a supply chain disruption in the past year and have had to alter their supply chains. Half of the respondents reported that disruptions made it difficult to keep up with demand, and I think we have all heard from our constituents about the difficulty in finding products on the shelf.

I was very pleased to hear President Biden announce during the State of the Union that rebuilding America's domestic production capacity is central to his Administration's plan to fight inflation and reduce our reliance on foreign supply chains. I am even more pleased that this priority was reflected in the fiscal year 2023 budget request. Rebuilding our domestic manufacturing sector, which has been decimated by decades of offshoring by large corporations will require a whole of government strategy, and it will require an investment in our small manufacturers who will be key to our long-term resilience.

One of our witnesses, Dr. Sridhar Kota, is the founding Executive Director of MForesight: Alliance for Manufacturing Foresight, where he leads efforts to accelerate innovation and make the U.S. manufacturing sector more competitive globally.

Dr. Kota, I am looking forward to hearing your thoughts on how Congress and the Small Business Administration can support small manufacturers and innovators.

I applaud the Biden administration for proposing an increase in the authorized lending capacity of the 7(a) and 504 loan programs as well as the Small Business Investment Companies programs. These three programs are critical to getting capital into the hands of small manufacturers so they can grow and increase their production capacity.

One of the consequences of offshoring our manufacturing capacity is that small businesses in the manufacturing sector need more support to access the amount and types of capital they need to grow. The 504 program, which is the program most utilized by small manufacturers to finance large equipment and facility purchases, hit its lending authority in September of last year and is on track to break a record number of loans again this year. Increasing lending capacity of 504, 7(a), and SBIC programs will meet an immediate need for small manufacturers looking to expand.

I am also pleased that the SBA's leadership understands the role they must play in this effort and they have focused on increasing collaboration within the Agency to improve its services to small manufacturers.

While we take steps to make these long-term investments, we must remember that the current state of our supply chain, from manufacturing to food service industries, was decades in the making, so we will not be able to rebuild our domestic capacity overnight.

So for restaurant owners like Mr. Jones and two of our witnesses today, Ms. Cheetie Kumar and Mr. Jason Lam, they need immediate relief. I remain gravely disappointed that the omnibus spending package passed by Congress earlier this month did not include additional assistance for restaurants and other hard-hit small businesses.

For the last two years of the pandemic, nearly all restaurants have been under great strain as they struggle to keep staff and adapt to the new variants while facing increased prices due to supply chain disruptions and inflation, and those have been the restaurants that are fortunate to have survived the pandemic. Thousands have closed their doors for good.

More than 100,000 restaurants received grants from the Restaurant Revitalization Fund that have helped them keep their doors open, but more than 180,000 restaurants that submitted applications—they were in line—have not received the funding. This is a matter of fairness. It was just the luck of where they were in line that they were unable to get the funds. This happened when we had the Paycheck Protection Program, and we replenished the funds without much controversy. We need to do the same for the restaurants.

Had Congress not acted quickly to replenish the Paycheck Protection Program when it ran out of money weeks after it opened in April 2020, the program would today be remembered as a half-measure. Instead, we extended the emergency aid needed to meet the crisis we face, and that is exactly what we must do again.

As we discuss our long-term effort to strengthen our domestic supply chain and manufacturing sector today, I want us to keep in mind that there are still hundreds of thousands of restaurants and other hard-hit small businesses that require immediate relief. We can, and must, address both of these issues.

With that, let me recognize the distinguished Ranking Member, Senator Paul.

OPENING STATEMENT OF HON. RAND PAUL, A U.S. SENATOR FROM KENTUCKY

Senator PAUL. Is the supply chain crisis a result of the nature of capitalism or the malignant nurture of big government? The answer should be obvious. The hallmark of capitalism is that economic freedom always allows supply and demand to intersect in virtually seamless fashion.

A trip to Walmart illustrates how advanced technology sends digital information from the checkout register to the suppliers across the country, and the shelves are never bare, that is, until big government inserted its maligned presence in the form of COVID lockdowns. Retail stores were shuttered. Mask mandates and vaccine passports discouraged in-person shopping. Regulations that discouraged trucking, combined with increased demand for online shopping, exploded trucking needs.

Government borrowed nearly $6 trillion. And, the money supply, as measured by the M2, peaked at 27 percent last year, a historic high, and has averaged 15 percent growth in the money supply for the past three years. The ensuing inflation, caused by this government expansion of the money supply, cascades unevenly through the economy, adding to supply chain issues as businesses must quickly recalculate the rising costs of an inflationary era.

If one is truly interested in what is causing the supply chain crisis, you must first acknowledge that government interfered in virtually every step of the economic production cycle. Government intervention caused this mess. COVID may have changed some behaviors, but the vast amount of the supply chain interference came from government lockdowns. The truth is this; government policies are what pushed us over the edge.

As COVID spread, petty tyrants and power-hungry bureaucrats criminalized in-person commerce and locked Americans in their homes. As a result, we lost more than individuals. We lost our freedoms, our liberties, our vibrant, small-town Main Street businesses, our children's growth and learning. For two years, our lives were held captive, and so-called health experts told whomever deigned to speak out that they were killing Grandma, but you were not supposed to notice because the government would simply send you a $1,200 check.

When the lockdowns ended, individuals who saved their COVID-related cash distributed through 2020 were free to go shopping, and demand began to rise. Nobody should have been surprised. Americans were emerging from government-directed isolation for the first time in the better part of a year and wanted to purchase goods.

Instead of recognizing this trend, Congress threw gas on the fire. They extended unemployment payments unnecessarily, keeping workers at home. They sanctioned another round of so called stimulus checks and, all told, spent another $2 trillion in new deficit-financed spending.

Meanwhile, California ports, America's largest, have long been among the most inefficient in the world. Extreme demand, driven by government spending throughout the pandemic, overwhelmed them. Ships carrying goods destined for American stores were left offshore. California laws banning diesel engines older than 2011 and laws limiting independent contractors combined to exacerbate the problem.

Anyone interested, truly interested, in fixing this supply chain fiasco should look to the one economic system that has created more wealth and more prosperity and lifted more people out of poverty than any other, capitalism.

Chairman CARDIN. Thank you very much. We will now go to our witnesses. Let me introduce two, and then I will turn to Senator Paul to introduce the two other witnesses.

First, let me introduce—and the way I introduce will be the order in which you will present your testimony. Ms. Cheetie Kumar is the chef and co-owner of the restaurant, Garland, in Raleigh, North Carolina. At eight years old, she immigrated to the United

States with her family from India, settling in the Bronx, New York. Later on, she moved to North Carolina where she now calls home.

Her cuisine is an interpretation of local ingredients made through the lens of someone who grew up in India, New York, and the South. She is also the owner of the music venue, Kings, and its adjoining cocktail bar, Neptunes Parlour.

I cannot wait to visit North Carolina and taste that food. Sounds very delicious and an incredible mixture.

Mr. Sridhar Kota is the founding director of MForesight: Alliance for Manufacturing Foresight, a federally funded national consortium focused on accelerating technology innovation to enhance U.S. manufacturing competitiveness. He is an emeritus professor of mechanical engineering at the University of Michigan, where he served for 34 years.

In response to the COVID–19 crisis in 2020, he founded Inspire Rx, LLC, that invented and manufactures negative pressure devices to treat COVID–19 patients and protect health care workers.

Between 2009 and 2012, Professor Kota served as the Assistant Director for Advanced Manufacturing at the White House Office of Science and Technology Policy. He played an instrumental role in establishing the National Manufacturing Innovation Institute.

Senator PAUL. We are pleased to have Jason Lam with us today. He is, in his own words, the owner, manager, chef, waiter, dishwasher, and toilet scrubber for his restaurant, which I love the fact that he is proud that he does everything there. The restaurant's name is Sake Thai and Sushi Bar in Stafford, Virginia. He opened his restaurant in 2011 and has worked in over a dozen restaurants since he was eight years old. As his current title suggests, he has worked every job the restaurant industry has to offer.

Mr. Lam brings a wealth of experience to this Committee regarding the real day-to-day experiences of operating a restaurant during COVID as well as the problems small businesses face navigating the supply chain issues we are here to discuss.

Our other witness is Joel Griffith. Joel is a research fellow for the Institute for Economic Freedom and Opportunity at the Heritage Foundation. Previously, he worked as a researcher for a former member of the Wall Street Journal Editorial Board and served as Deputy Research Director at the National Association of Counties. He most recently was the Director of the Center for State Fiscal Reform at the American Legislative Exchange Council.

Chairman CARDIN. To the witnesses, your full statements will be made part of our record. You may proceed. Try to keep your comments to five minutes, so we have time for questioning. And we will start with Ms. Kumar.

STATEMENT OF CHEETIE KUMAR, CHEF AND CO-OWNER, GARLAND, RALEIGH, NC

Ms. KUMAR. Thank you, Chairman Cardin, Ranking Member Paul, and members of the Committee. Thank you for inviting me today to talk about the supply chain in the restaurant industry and how this Committee and Congress can help.

I am the chef and co-owner of Garland in Raleigh, North Carolina, as you mentioned. We have a music venue and cocktail bar all in the same building. I am a self-taught chef who studied recipes and worked in restaurants while touring across the U.S. as a guitar player alongside my husband and business partner, Paul Siler.

Let me start by thanking this Committee and especially Chairman Cardin for all the support you have shown independent restaurants throughout this pandemic. You have given some of us a lifeline to survive in the Restaurant Revitalization Fund, the RRF, and we are eternally grateful. I would be remiss if I testified before this Committee and did not advocate for refilling that fund to take care of the 177,000 restaurants who applied and did not receive a grant. They desperately need help, and the Congress would ensure the success of a generation of independent restaurants by providing the money to fund all the outstanding grant applications.

One hundred thousand restaurants have already closed permanently. Many of my friends and colleagues are hanging on by a desperate thread and have taken on crushing personal debts that will be with them for a lifetime, and they are fighting against joining the growing list of closures. More than 80 percent of restaurants who did not receive the RRF report that they are on the verge of permanent closure.

I am proud and grateful to be here representing the hundreds of thousands of independent restaurants across the country and their millions of employees today to talk about supply chain. Make no mistake, when we talk in general terms about the supply chain, what we are really talking about is the rising cost that results from a broken or damaged chain.

My restaurant adapts to supply chain issues every day, and we always have. It is our skill set. We look for seasonable produce. We look for cuts of meat with great flavor and potential to be featured in dishes that do not cost a lot. So as long as they can remain affordable, we can serve them.

As a great example is flank steak. You know, it used to be a less expensive cut of meat, and so it was on a lot of restaurant menus, and for a time we could afford to put it on our menus. It is a long, flat, thin, boneless cut. It is delicious. It is easy to cook. But like most cuts of beef, there are only two flank steaks per cow, one on each side. With limited supply and increased demand, prices increase to the point once people discovered them, and then the price goes up. So it does not make sense for us to put it on our menu with margins being so close, so we make changes. We are skilled at pivoting.

When hundreds of thousands of restaurants closed or severely limited capacity, at the beginning of the COVID–19 pandemic, it created a giant gap in the supply chain. Millions of dollars' worth of food was spoiled or thrown away. In the best circumstances, restaurants like mine donated food to those who really needed it. In the worst circumstances, commodity farmers and ranchers were forced to destroy or euthanize their crops and animals. With each surge of the virus and change in consumer demand, the supply chain has struggled to keep pace with the market, with inconsistencies as the only predictable characteristic.

At Garland, we source our food and supplies locally as often as possible. When we shut down in March 2020, I watched my suppliers suffer, too, and these are farmers and purveyors that we know by name. Overnight, they lost hundreds of thousands of dollars in sales, and the recovery has not been easy for them either. For instance, my seafood supplier, local seafood in Raleigh, goes to the coast and brings fresh catch into town every week, twice a week. They lost most of their wholesale customers in the matter of a few days when the pandemic began.

As restaurants had uneven recovery—I returned to capacity and operations in March, but say my neighbor cannot do it until June—locals faced a challenge of prioritizing restaurants as their customer base while still serving their direct-to-consumer market. We have seen a lot of small farmers and purveyors simply close because so many restaurants have closed or because as a variant rages through our community restaurants have had completely unpredictable revenue and volume of sale, which directly impacts these producers.

I was lucky enough to receive an RRF grant, and I am eternally grateful for that. As a result, as I am struggling to deal with supply chain disruptions, but I am able to do so in the same way that I was pre-pandemic. But those who are not as fortunate are compounding their pandemic problems with supply chain issues.

Again, thank you for holding this very important hearing, and I look forward to working with you on refilling the RRF and on issues like farm policy, food security, fishery issues, and labor in the coming weeks and months.

[The prepared statement of Ms. Kumar follows:]

Testimony of Cheetie Kumar
Chef and Owner of Garland
U.S. Senate Committee on Small Business
March 30, 2022

Chairman Cardin, Ranking Member Paul, and members of the committee, thank you for inviting me today to talk about the supply chain in the restaurant industry and how this committee and Congress can help.

I am the chef and co-owner of Garland in Raleigh, NC. In the same building as Garland is our music venue and basement cocktail bar. I am a self-taught chef who studied recipes while touring across the US as a guitar player alongside my husband and business partner, Paul Siler. Seeing every corner of this country with our band, Birds of Avalon, showed me the value of an independent, artistic spirit and that informed how we connect to our downtown Raleigh community.

Let me start by thanking this Committee and especially Chairman Cardin for all the support you have shown independent restaurants throughout this pandemic. You have given us a lifeline to survive in the Restaurant Revitalization Fund (RRF) and we are eternally grateful.

I would be remiss if I testified before this committee and did not advocate for refilling that fund to take care of the 177,000 restaurants who applied and did not receive a grant. They desperately need help, and the Congress could ensure the success of a generation of independent restaurants by providing the money to fund all the outstanding grant applications.

One hundred thousand restaurants have already closed permanently. Many of my friends and colleagues are hanging on by a thread and have taken on crushing personal debt as they fight against joining the growing list of closures. More than 80% of restaurants who did not receive the RRF report they are on the verge of permanent closure.

Data collected from a January survey of nearly 1,200 members of the independent restaurant and bar community in all 50 states demonstrates the dire situation the pandemic has created for these businesses, especially those that did not receive federal RRF grants.

- 49% of businesses that did not receive RRF grants were forced to lay off workers because of the Omicron surge
- 42% of businesses that did not receive RRF grants are in danger of filing for or have filed for bankruptcy
- 28% of businesses that did not receive RRF grants have received or are anticipating receiving an eviction notice
- Restaurant and bar owners who did not receive an RRF grant are taking on more personal debt. 41% of people that did not receive RRF reported taking out new personal loans to support their businesses since February of 2020. This is only true for 19% of businesses that received an RRF grant.

The Census says that restaurants and bars have lost more than $280 billion in sales. Chairman Cardin, I have been on calls with a number of strong, wonderful restaurant and bar owners in Maryland and they are past their breaking point. The same is true for Kentucky, Washington, Florida, New Hampshire, and every state represented on this Committee.

I know you invited me to talk about the supply chain and I will do that as well, but I did not want to pass up on the opportunity to ask you for the help we so desperately need.

I am proud to be here representing the hundreds of thousands of independent restaurants across the country and their millions of employees. My story is not very different from so many others in the restaurant industry. With my family, I immigrated from India to the Bronx at the age of 8 and eventually settled in the South to play music and open my restaurant. Our industry is full of these stories – from folks all across the country and all around the globe. Women, minorities, single parents, veterans, and so many others get their start in restaurants, build their lives working in restaurants, or make a career out of working in restaurants. Frankly, restaurants represent America more than any other industry.

I am a member of the Board of the Independent Restaurant Coalition – a group borne out of crisis. Chefs and independent restaurant and bar owners from across the country gathered in the first days of the pandemic to advocate for help for the restaurant industry. Together we have built a grassroots movement to secure vital protections for the nation's 500,000 independent restaurants and the more than 11 million restaurant and bar workers impacted by the coronavirus pandemic and build a more sustainable future for our industry.

Two years later I sit before you, in person finally, to talk about the supply chain, how the RRF has helped, and how we can fix the supply chain. And, make no mistake, when we talk in general terms about the "supply chain," what we are also talking about is the rising costs that result from a broken or damaged chain.

Independent restaurants play a unique role in the food supply chain. They both push items into the supply chain and pull items out of the supply chain. Think about kale. For many years the largest purchaser of kale was Pizza Hut who used the leafy green as decoration on their salad bar. According to the Department of Agriculture, U.S. kale production increased by nearly 60 percent between 2007 and 2012. The increase in demand came when chefs started serving the nutrient dense green in salads, soups and slaws. Kale went from lowly decoration on the salad bar to becoming the darling of celebrities and food media. Kale sales continue to rise, in 2020 the leafy green accounted for more than $225 million in sales. That collective growth is often spread among smaller farms supporting local agriculture systems since independent restaurants individually source at smaller volumes.

My restaurants adapt to supply chain issues every day. We look for less expensive cuts of meat with great flavor and potential to be featured in dishes. So long as they remain affordable, we can serve them. In the case of flank steak, it was a less expensive cut of meat, so it was on a lot of restaurant menus. Then the demand for flank steak increased as home cooks discovered it. Flank steak is a long, flat, thin, boneless and lean cut of steak, whose grain runs lengthwise. Like most cuts of beef there are **two flank steaks per cow**, one on each side. With limited supply and increased demand, prices increase to the point where it doesn't make sense for our menu and margins, so we make changes.

When hundreds of thousands of restaurants closed or severely limited capacity at the beginning of the COVID-19 pandemic, it created a giant gap in the supply chain. Millions of dollars' worth of food spoiled or was thrown away. In the best circumstances, food was donated to those who needed it. In the worst of circumstances farmers and ranchers were forced to destroy or euthanize their crops and animals. With each surge of the virus and change in consumer demand the supply chain has struggled to keep pace with the market.

Right now, the Producer Price Index (PPI) report released by the Bureau of Labor Statistics (BLS) indicated food prices rose 12.8% over the past year, including major jumps for ingredients critical to restaurants like beef and veal (43.9%), grains (22%), shortening and cooking oils (36.4%), and eggs (40.9%). the price of our non-GMO oil rose from $38/ 5-pound box to as high as $110 and currently is hovering around $85 if it's even available.

At Garland we source our food and supplies locally as often as possible. When we were forced to close in March 2020, I watched my suppliers suffer too. Overnight they lost hundreds of thousands of dollars in sales. And the recovery hasn't been easy for them either. For instance, my seafood supplier – Local's Seafood in Raleigh – goes to the coast and brings fresh catch into town twice a week. They lost most of their customers in the matter of a few when the pandemic began. Their operation is large enough operation that they could pivot to offering direct to customer sales. As restaurants have had uneven recovery - I return to near capacity operations in March but my neighbor can't reopen fully till June. Locals faces a challenge of prioritizing restaurants as customers while still serving their direct-to-consumer market. We've seen a lot of small farmers and purveyors simply close because so many restaurants have closed or because as a variant rages through our community, restaurants have had completely unpredictable revenue and volume of sales which directly impacts these producers.

While some of the dramatic price increases, we've seen over the past two years have leveled off, most ingredients and supplies needed to operate our business are significantly more expensive than they were in 2019. And while I have always been able to manage changes in prices, it is nearly impossible for independent restaurants who did not receive RRF grants to manage months of back rent, personal debt, supplier bills, unpredictable dining demand, labor issues, and supply chain uncertainty at the same time.

I was lucky enough to receive an RRF grant, and I am eternally grateful for that. As a result, I am struggling to deal with supply chain disruptions, but I am able to do so in the same way I was pre pandemic. But those who were not as fortunate are compounding their pandemic problems with supply chain issues.

As this Committee and others consider ways to work on the supply chain and how to help businesses like independent restaurants, the IRC stand ready to work with you. While we remain focused on getting relief for those independent restaurants hardest hit by the pandemic, we are also working to give voice to those same restaurants on farm policy, fisheries policy, labor and employment issues, and other things that are so crucial to our members. Independent restaurants are the tip of the spear on supply chain issues and very good at labor cultivation.

Again, thank you for holding this important hearing and I look forward to working with you on refilling the RRF and these other critically important issues.

Chairman CARDIN. Ms. Kumar, thank you very much for your testimony.

We will now hear from Dr. Kota.

[Pause.]

Chairman CARDIN. I have been told that the order should be as it is on the table. So, Mr. Lam, you will go next.

STATEMENT OF JASON LAM, OWNER, MANAGER, CHEF, WAITER, DISHWASHER, AND TOILET SCRUBBER, SAKE THAI AND SUSHI BAR, FREDERICKSBURG, VA

Mr. LAM. Chairman Cardin, Ranking Member Paul, members of this Committee, thank you for having me.

My name is Jason Lam. I am 34. I own a restaurant in Stafford. It is about an hour south from here, actually.

And like Ms. Kumar, I actually started in the restaurant business when I was eight years old. I learned how to answer the phone, work the registers, slide credit cards over carbon paper, if you remember that. Credit card machines were not a thing back then. I learned how to stack cardboard and Styrofoam boxes into bags, like little Legos, making sure they were perfect, how to stack plates on a dishwasher rack, even went to college, and then I still worked in a restaurant after classes.

My repertoire expanded. I learned how to cut, slice, dice, chop, fricassée, chiffonade, julienne, a bunch of fancy terms you will find in a French cookbook. And even when I stepped away and I thought I would make my own way in life and I would become a contractor to support our military, I worked my day job, and I still went to the restaurant, often working from 8 to 4 and then 5 to 11.

I know the meaning of hard work and what it means to sacrifice for your restaurant and do everything you can to make sure it succeeds. I worked as a manager, an accountant, managing inventory. I mean, just name it. I have done everything that there can be done in the restaurant industry.

At the start of the pandemic, I remember it was a Tuesday. I was driving on 95 going to work when we got the announcement restaurants had to cease. I called my employees while I was in the car, and I told them, I do not know what we are going to do, but none of you can come to work today, and we closed.

In April, we lost over $30,000. The costs, it was insane. I threw out—like Ms. Kumar said, we threw out inventory. We threw out food. We threw out a lot. And I had to come up with $30,000 out of my own pocket to pay my employees, to pay my rent, the bills.

In May, it got a little better, but I still lost over $10,000.

In June, I finally saw a little bit of a breakeven point.

In July and so forth, it got better.

Then in October 2020, we decided that we would open back up for socially distanced spacing, and we went to 50 percent capacity, and we opened back up for dine-in even though carryout still made the bulk of our sales.

As the pandemic restrictions have lifted in the past year and a half, two years, our volume is crazy. It has gone up 15 to 20 percent what it used to be before in 2019. And as all this volume has come up, we need more stuff, we need more inventory, we need to be able to keep up with this demand for all these customers who are coming in through my door that want to eat and want to get carryout or dine-in.

My restaurant's name is Sake, but over half of the sake on my menu is unavailable due to supply chain issues here, at home, and abroad. I have been told that there is a glass issue in Japan and they cannot bottle the stuff, and we cannot get it, and I know that that is specific to my genre of food because I am a Japanese and Thai restaurant. And I know it is not entirely fair to say, oh, tuna has gotten more expensive, which it has. It has gotten from $15.99 to $20 a pound. That is a 25 percent increase in 16 days in this month alone. That is crazy.

So let us go and talk about something that other restaurants would use, like Ms. Kumar herself. Zucchini has gone from $12.50 a case to $21 a case. That is a 68 percent increase in 17 days alone in this month.

Brown paper takeout bags. I cannot just hand my customers boxes and tell them, no, you should bring it out to your car yourself. That has gone from 14.5 cents apiece to 22 cents apiece. That is a 66 percent increase.

Chicken. Chicken used to be $1.97 a pound. Now it is $3.10 a pound. Now that has gone up 64 percent, and that is in 21 days in this month alone.

Vendors used to be able to work with us restaurant owners. They used to be able to tell us, "Hey, look, there is going to be a price increase soon. It is coming. You should probably order more so you can keep par with your inventory."

They cannot do that anymore. They tell me the day before, "Oh, yes, your tuna, it was $17 a pound last week; it is $20 a pound this week."

There is no amount, no amount, of planning that can compensate for that.

I am sure you know that restaurant margins are notoriously thin. Notoriously thin. They go anywhere from 3 to 8 percent. And when you have items on your menu and in your inventory that jump 50, 60, 70 percent, how am I supposed to succeed? It is increasingly easier to fail.

Now I say all this knowing that starting a business is my choice. It is inherently risky and especially the restaurant industry. Most do not make it past two or three. But I have been in this business long enough to know that you should never take a good day, a good week, a good year for granted, but the current climate is making it very difficult for businesses like mine to succeed.

As I mentioned earlier, our volume has increased, but we cannot continue to serve our clientele without more inventory, and the supply chain issue is killing us. It is frustrating to serve customers and tell them, here is the list of things we cannot sell you today, or, yes, our prices have gone up again, for the third time in the past six months. It is incredibly frustrating, but they understand, for the clients who know us. But what about the new customers? That does not make for a very good first impression.

Fixing the supply issues at the core will help all businesses, not just mine. Drycleaners, salons, tutoring centers, whatever you want to name. But throwing money at the challenges we face, like the

RRF, is like putting a Band-Aid on a wound that needs stitches. It will stop the bleeding, but it does not fix the issue. You are still going to bleed out in the end.

I did not apply for RRF funds. Spending billions of taxpayer dollars is not the answer. Giving grants to these restaurants is not the answer. I want you to look my kids in the face and tell them that they are not going to be responsible for paying that back. They will. I cannot do it.

I can fail or succeed in owning my business just fine on my own. The real help I need is things that I cannot control. The supply chain, there is nothing I can do about that. So what I want the Federal Government to do for me is to fix that problem.

Thank you for your time and attention.

[The prepared statement of Mr. Lam follows:]

Testimony of Jason Lam
Owner/Manager/Chef/Waiter/Dishwasher/Toilet Scrubber, Sake Thai and Sushi Bar

U.S. Senate Committee on Small Business and Entrepreneurship Hearing
"The Supply Chain Crisis and the Implications for Small Businesses"

March 30, 2022

Chairman Cardin, Ranking Member Paul, and members of the Committee, hi. My name is Jason Lam. I'm 34 years old and I'm a small business restaurant owner in Stafford, VA. I started working in my family's restaurants when I was 8 years old. I learned how to answer the phone, work the register, and slide credit cards over carbon paper before credit card machines were a thing. I learned to pack orders correctly like Styrofoam Legos into take out bags and how to properly load plates onto a rack. Even when I started taking college classes, I would work after class. By this time my repertoire in the restaurant business was expanding, I was part sous chef; I learned how to cut, chop, slice, dice, julienne, chiffonade, fricassée, and a bunch of other fancy terms you'd find in a French cooking book. I was part line cook, adjusting the temperature on deep fryers during busy hours to maintain a constant temperature. I was the manager, the accountant, and the inventory clerk, managing employees, singing contracts, dealing with vendors, maintaining inventory and making sure that we were in compliance with the laws surrounding the sale of alcohol. Even when I thought I might step away to support our military as a contractor, I worked evenings in the restaurant. There is not a single facet of my business that I have skipped over or not done myself.

At the start of the pandemic, as businesses were closing their doors and shelter in place laws were starting, we closed for 3 days as we tried to navigate the rules and regulations of how to do business during a pandemic. In April 2020 our operating costs exceeded our profit by $30,000, in May those loses dropped to just over $10,000, in June we broke even, and by July we finally saw some profit return, from there our sales continued to grow and have kept growing. We reopened for dine-in in October of 2020. With social distanced spacing, we were able to return our dine-in capacity to 50%, and takeout orders continued to account for the bulk of our sales.

As pandemic restrictions have lifted, we find ourselves with a daily volume of ticket sales 15-20% higher than before the pandemic started. With this increase in volume, we now face a new challenge. Over the course of the past year-and-a-half sourcing for inventory has become increasingly difficult, and with a higher volume of sales, we require more inventory. My restaurant's name is Sake but half of the sake on our menu is unavailable due to supply chain issues both here in the US and in Japan. In addition, because we are a Japanese/Thai restaurant, there are items that are unique to the genre of food that we serve which can be difficult to source even under the most optimal conditions. At first the disturbances were minimal but steadily we have seen items consistently unavailable, resulting in purchase limits and price increases when we do find them in stock. This month, we saw zucchini go up up 68%. Brown paper takeout bags have gone up from $0.145 to $0.22, a 66% increase, and chicken has gone from $1.97/lb to $3.10/lb – a 64% increase. Vendors used to be able to tell us when a price hike would be on the horizon allowing us to plan ahead of time, to stock up on the supplies we knew we would need soon. Restaurant profit margins are notoriously thin to begin with. When your costs are increasing by over 50% in a short amount of time, there is no amount of planning that can compensate for that. As prices become increasingly erratic the success of restaurants hang in the balance.

Starting a business comes with inherent risks, and restaurants are some of the riskiest business ventures out there. I have been in this business long enough to know that you never take a good year or a good month for granted, but the current climate is making it harder and harder to succeed and not because of lack of funds or lack of business. As I mentioned earlier our volume has increased, but we cannot continue to serve our clientele without product to sell. Over ten years, we have built a loyal community who has taken care of us during hard times, and when they come and sit down at our table it's frustrating to list all the things we are out of, or to have to acknowledge that yes, our prices have gone up again. Those who know us, know that it's mostly beyond our control, but what about the new customer that comes in for the first time – our first impression doesn't look too great. Fixing the supply issues at the core help all business. Throwing money at the challenges that we face today is like putting a Band-Aid on a wound that needs stitches – you might stop hemorrhaging temporarily, drag out the inevitable, but without real change that address the crux of the issue, you going to still bleed out. Our community is small, located far enough outside the DC metroplex that I know my local restaurant owners personally, in fact they come sit at my bar, and I hear them repeat what I have told you today. How many more of them have to close their doors before we provide real solutions to the real problems that they face.

Chairman CARDIN. Thank you very much, Mr. Lam, for your testimony.

We will now hear from Dr. Kota.

STATEMENT OF SRIDHAR KOTA, Ph.D., EXECUTIVE DIRECTOR, MFORESIGHT: ALLIANCE FOR MANUFACTURING FORESIGHT, UNIVERSITY OF MICHIGAN, ANN ARBOR, MI

Mr. KOTA. Chairman Cardin, Ranking Member Paul, distinguished Committee members, thank you for the opportunity to appear before you today to discuss the supply chain crisis and how to be better prepared for the next crisis. My comments are based on my over 30 years' experience as a professor at a university, but I also worked 20 years as a founder and CEO of a small engineering firm and in addition to the work I have done for the last seven years or so through this think tank, MForesight.

So I would like to focus on small manufacturers, who are the economic engines for our local communities, as you know, and backbone to the entire manufacturing sector. Challenges facing all manufacturers, large and small, are broad, deep, and systemic.

The supply chain crisis has its roots in gradual erosion of our manufacturing sector over four decades as we steadily offshored manufacturing to low-wage countries. That strategy has worked and continues to work very well for private sector companies that remain focused on short-term profits. For too many companies, manufacturing could be done cheaper abroad, avoiding capital costs and operational expenses of building and running factories. By offshoring manufacturing, we eroded our manufacturing know-how, infrastructure, machinery, and engineering skills, all of them are collectively called "industrial commons" or what we used to call "American ingenuity." We may still be the most inventive country in the world but not the most innovative, at least in hardware.

We also eroded our military preparedness with growing dependence on other countries for critical military components and systems.

More recently, we all realized suddenly we did not have the masks and ventilators when we so desperately needed them. In fact, I had a frustrating experience with this company I started for COVID–19 patients wherein I co-invented a device for preventing virus transmission while treating COVID patients, but I was trying to find U.S.-based manufacturers of electric motors. After several months of trying everywhere, finally I reluctantly entertained some proposals from China. And by the way, they were fantastic technically and incredible pricing and delivery options, very enticing. But I remained focused on trying to find somebody here, and fortunately I was able to find a manufacturer ultimately in Kentucky, which was great.

But that story I just described is nothing new. This kind of lack of domestic producers is very common in almost every manufacturing sector for over two decades. So reestablishing supply chains is difficult. It is not about bringing back the jobs we lost. It should be about how to establish industries of the future, how to rebuild our foundational capabilities that are critical to our national security as well as economic health and energy security.

Yes, it is the Federal Government's role, not the role of the private sector, to secure and advance our national interests. A good example of that is the current bipartisan efforts in strengthening our domestic manufacturing of semiconductors and electric vehicles.

Likewise, we need to have a whole-of-government approach with a national strategy for other critical sectors by investing, not just spending without any metrics. We need metrics that define what to do, not how to do it.

And for those products that are best produced elsewhere, we should consider nearshoring to countries, friendly countries, nearby rather than bringing them across oceans.

And small manufacturers are the backbone. If the backbone is strong, the large manufacturers will come.

And small manufacturers are similar constrained in resources to make investments in R&D and upgrading their equipment, and they routinely face even more challenges in attracting and retaining a skilled workforce. And SBA can help in meaningful ways, and I outlined some of them in my written testimony. Current and pending legislation in creating Regional Innovation Hubs, the new Technology Directorate for NSF, and a new Manufacturing Office in SBA, these are all very encouraging signs.

However, if these programs, like every other Federal program and agency, act in silos, the results will be mediocre at best. For instance, the SBA Manufacturing Office can play an effective role in helping entrepreneurs and small manufacturers advance technologies developed by other agencies to initiate pilot production here in the U.S.

Rather than continue to fund programs that have not yielded desirable results in decades, government needs to launch a series of listening tours across the Nation to understand the real-world challenges faced by small manufacturers and entrepreneurs. MForesight did just that in 2018, and I outlined some of those insights in my testimony.

Shortage of skilled workforce, raw materials, components, these are all intertwined, and no single Federal agency can truly fix the supply chain crisis by itself, and SBA is no exception. We already have numerous well-established, well-funded Federal agencies and institutions, but each is focused on its own mission, understandably. It is like having a great team of players but we do not have a coach.

We need a coach to win. We need a strategy. We need to connect the dots. We need a new entity in Federal Government whose sole focus is to strengthen U.S. manufacturing competitiveness and to ensure what is invented here is manufactured here.

It sounds like "industrial policy," a term derided for decades. Yet, oil and gas, telecommunications, aerospace, they all benefited from a successful industrial policy we enjoyed for nearly a century. Even if we pretend it is not, whatever you want to call it, we should replicate that policy boldly to other sectors that are critical to national interests, to create a stronger, wealthier nation that is better prepared to confront the next crisis and to finally get a return on investment of taxpayer dollars.

I will end with a quote attributed to Churchill. "We can always count on Americans to do the right thing after they have exhausted all other options."

Now is the time. We have had two Sputnik moments, COVID–19 and China 2025.

Thanks again for giving me the opportunity to share my thoughts.

[The prepared statement of Mr. Kota follows:]

Sridhar Kota
Executive Director – MForesight: Alliance for Manufacturing Foresight
Herrick Professor Emeritus of Engineering, University of Michigan.
Founder & CEO, FlexSys Inc., Inspire Rx LLC.

Chairman Cardin, Ranking Member Paul, distinguished Committee Members—thank you for the opportunity to appear before you today to discuss the supply chain crisis and how to better prepare for the next crisis.

I would like to focus my testimony on small manufacturers who are the economic engines of our local communities, and backbone to the entire manufacturing sector. Challenges facing manufactures are broad, deep and systemic. We need government action that is commensurate with the challenge to prepare for the next crisis. No single federal agency can truly fix the supply chain crisis by itself, and SBA is no exception. The supply chain crisis has its roots in gradual erosion of our manufacturing sector over four decades. Therefore, creating yet another federal program or increasing funding for an existing program might give some satisfaction but it will not fix the underlying problem. It takes a whole of government approach. It demands an effective national strategy to create industries of the future. It needs sustained investment, not spending, by the federal government.

To highlight the nature of this challenge, I quote Akio Morita, co-founder and Chairman of Sony Corp. "American companies have either shifted output to low-wage countries or come to buy parts and assembled products from countries like Japan that can make quality products at low prices. The result is a hollowing of American industry. The U.S. is abandoning its status as an industrial power." This was said in 1986. The slippery slope we have been for the past 4 decades has only made matters much worse. It is not surprising that we did not have adequate masks and ventilators that we desperately needed during the Covid-19 crisis. To ensure that we will be better prepared for the next crisis, be it health, military or natural, it is crucial that the federal government takes a holistic approach to develop a real solution, not a piecemeal approach that is likely to fail.

The pandemic is new but the gross inadequacies in our domestic supply chains across almost every manufacturing sector are, unfortunately, not new. With heavy reliance on global supply chains and foreign manufacturers, the pandemic has interrupted shipping of parts and materials to nearly 75% of U.S. companies. Modernizing our ports and distribution channels will streamline the flow of goods from other countries the next time we face crisis. But that will only provide a false sense of security when faced with a different type of crisis. Already, our new normal celebrates when an Amazon Warehouse moves to town, but the nation simply cannot maintain its living standards based on low-paying jobs in warehousing, distribution, and sales of American innovations made in offshore factories.

For decades, we have steadily offshored manufacturing to low-wage countries. That strategy has worked and continues to work well for private sector companies that remain focused on short-term profits. For too many companies, manufacturing could be done cheaper abroad, avoiding the capital costs and operational expenses of building and running factories while destroying good-paying domestic jobs resulting in stagnant incomes for nearly 50 years. By offshoring manufacturing, we have slowly but surely eroded our manufacturing know-how, infrastructure, precision machinery and engineering skills – all of them collectively called "industrial commons" or what we used to call American ingenuity. As a result, we also eroded our military preparedness with growing dependence on other countries for critical military components and systems. For instance, a report by the Senate Armed Services Committee in 2012 documented the vast number of counterfeit parts in defense supply chains, typically imported by third and fourth tier suppliers. There were several other reports and studies since, but the downward trajectory has only intensified. More recently, we all realized our vulnerabilities in health security during the Covid crisis.

Personally, I had a frustrating experience in 2020 when I tried to identify U.S.-based manufacturers of electric motors for a device I co-invented to treat Covid-19 patients while preventing virus transmission to health care workers. After over a month of failed attempts, I reluctantly entertained offers from China. I found them to be technically thorough with very attractive delivery options and pricing (unit and volume), which, understandably, would have been enough for most customers to place the order. But I was determined to keep manufacturing here, and, fortunately, after additional efforts, I was able to identify a manufacturer based in Kentucky. Such lack of domestic producers is a common phenomenon in almost every manufacturing sector for over two decades, but only aggravated by the Covid crisis.

Between 2007 and 2019, manufacturing output fell 1.3 percent, a worse performance than during the Great Depression. Productivity rose only 0.4 percent per year compared to 3.7 percent in the prior 20 years. In 2018 the Food and Drug Administration (FDA) listed 90 drugs in short supply; in September 2020, the number had jumped to 119. Output from a key industry during the pandemic, medical equipment and supplies, fell 10 percent. A more granular analysis of 40 manufacturing industries found that only one—wood containers and pallets—increased employment between 2002 and 2018, but only by 1.2 percent. Every other industry examined, including advanced industries like semiconductors, communications equipment, and computers, experienced large drops in the number of establishments and employment. Meanwhile, production in China continued to grow, to roughly double U.S. output.

Covid-19 has aggravated and surfaced the underlying systemic challenges in our manufacturing supply chains. Domestic manufacturers of all sizes have experienced shortages of raw materials, components, sub-systems or machinery and tools that are routinely imported from other countries, particularly from Asia. Additionally, the shortage of skilled workers at all levels continue to plague the manufacturing sector. These challenges are intertwined – fixing one or the other will not improve our resiliency when the next crisis arises. An effective way to prepare for the next crisis is to take a holistic approach that begins with a national strategy to strengthen not only emerging technologies and industries of the future but also the foundational industries and capabilities that are critical to our national security, as well as economic, health security and energy security. It is the federal government's role, not the role of the private sector, to secure and advance our national interests.

A good example of such a federal initiative is the current bipartisan efforts to strengthen domestic manufacturing of semiconductors and electric vehicles. Likewise, if we have a national strategy that identifies other critical sectors, we can identify specific technologies, both emerging and foundational technologies, that we must develop to ensure robust and cost-effective supply chains on-shore and/or near-shore to minimize the impact of future shortages. Such a strategy could direct federal investment and public-private partnerships in building knowledge and physical infrastructure just as we are witnessing in electric vehicles and semiconductors.

Although the U.S. remains a large manufacturer, accounting for nearly 17 percent of global output, over two-thirds of revenue is generated in just three industries: Chemicals (including oil and gas products), Food & Beverages, and Transportation. It's no coincidence that the first two are anchored here by their dependence on local raw materials and agriculture production. The silver lining is the Auto industry, accounting for over 20 percent of U.S. manufacturing. That is because it still has the installed base of talent, infrastructure and supply chains built over a hundred-year history. Once supply chains move away it is very difficult to lure them back quickly even with tax incentives or tariffs.

But contrary to the Washington consensus, it is not high wages, taxes, unfair trade, regulations, or automation that have decimated American manufacturing. Consider Germany, Japan, and South Korea: these advanced nations continue to have strong manufacturing and innovation ecosystems despite having higher wages, higher taxes, higher energy costs, strict regulations, and more automation than in the United States. Governments and the private sector in these advanced nations invest with a long-term strategy. In fact, foreign multinationals, German and Japanese in particular, continue to invest in manufacturing facilities in the U.S.

Small and medium sized manufacturers (SMMs) serve as the backbone to the entire manufacturing sector. Most SMMs have never had a "China strategy" and are less likely to shift production abroad. They produce key components and sub-systems that OEMs integrate into finished products and systems. They are severely constrained in resources to make necessary investments in R&D or to upgrade their machinery and equipment to be globally competitive. With the spread of lean manufacturing, they also tend to have limited inventory, so the supply chain crisis has affected them even more severely. SMMs face significantly more challenges in attracting and retaining skilled workforce at all levels.

Government has an important role to play in building a strong and globally competitive manufacturing sector by supporting SMMs in a meaningful way. This may include: grants and low-interest loans to upgrade equipment; federal vouchers to subsidize training on the use of Industry 4.0 technologies, hire talented workers including veterans, semi-retired or retired engineers and managers; partnerships with vocational training programs for talent development; partnerships with R&D institutions to bring inventions to production and access to capital, government procurement and export markets.

Rather than continue to fund programs that have not yielded desirable results in decades, government needs to launch a series of Listening Tours across the nation, rather than heeding lobbyists in DC, to understand the real-world challenges faced by SMMs and entrepreneurs. This will help identify gaps in our innovation pipeline and supply chains. In 2018, MForesight did just that. We convened diverse groups of experts via numerous round table discussions in various cities across the country which informed us, among other insights, the need for investment in translational R&D, and scaling up 4-yr polytechnic universities that provide both education and training.

In our Austin roundtable, we learned that nano-electronics technology developed by UT-Austin researchers, is now being scaled in Japan by Canon. The research was initially funded by NSF and later by NIST's ATP program. Despite demonstrating the potential of the technology, federal funding dried up and no U.S. companies showed interest. Canon saw the long-term potential, took the risk, and invested $10 million in this nascent technology, only to make the resulting products in Japan. Representatives from Canon who were at the roundtable explained in detail how the United States lacks the manufacturing know-how, precision machinery, and engineering skills needed to scale the technology, despite continued preeminence in research. Therefore, all the production jobs, high-value product sales, capital investment, and supplier contracts are captured in Japan, not to mention the tacit learning gained from actual production.

Such transfer of technology, willingly, has only accelerated since China joined the WTO. Blaming universities is not the answer. Government that invested taxpayer dollars in R&D should institute proper metrics and policies to ensure a return on investment back to taxpayers. It also must create programs to fund technologies beyond just basic research. Otherwise, we will continue to silently witness other countries picking our winners. A study of 150 manufacturing startups from MIT during the last decade found that of those startups that managed to scale, 70% of them scaled in China and none in the U.S. This is due to lack of capital, skills and infrastructure. We may still be the most inventive country in the world but not the most innovative – at least in hardware. Innovation is about transforming a promising invention into a product manufactured at scale.

Current and pending legislation to create Regional Innovation Hubs, the new Directorate for Technology, Innovation and Partnerships at the National Science Foundation and a new Manufacturing Office in SBA are all very encouraging signs. However, if these programs, like every other federal program and agency, act in silos, the results will be mediocre at best. For instance, the SBA Manufacturing Office can play an effective role in not only helping current SMMs but also helping entrepreneurs and small manufacturers advance technologies developed by other agencies and helping initiate pilot production in the U.S.

For some, the idea of the federal government even considering developing a strategy for industrial competitiveness runs counter to free-market principles that we all believe in. The private sector pursues what is in its best interest and, understandably, cannot be responsible for national interests. The term "industrial policy" was derided by policymakers for decades. Yet, Oil and gas, Telecommunications, and Aerospace have benefited from favorable tax treatment, trade barriers, federal research, and defense procurement. Tesla got its start through a government loan. The federal government has a long history of building strong national industries through a combination of sustained R&D and procurement contracts. Aviation, semiconductors, computers and the internet are obvious examples. The Department of Defense helped create Silicon Valley. Government can make a positive impact again whether we call it industrial policy or not.

Of all the manufacturing sectors, only aerospace has consistently generated a trade surplus, and it is the only manufacturing sector that has enjoyed long-term, consistent government support. Led primarily by defense, the federal government has invested in both basic and translational research, engineering development, technology demonstrations, deployment, procurement, policies and programs that have made sure that aerospace completes the innovation cycle and wins in international markets. Regardless of the party in power, every President helps this industry market and sell both defense and commercial products when they visit other countries. This is successful, high-profile industrial policy we have enjoyed for nearly a century even if we pretend it isn't. We should replicate this policy boldly to other sectors critical to national interests.

We can rebuild a strong manufacturing sector especially because we still have some of the core ingredients such as basic research prowess and institutions, creativity, policies that attract the best and the brightest to our shores and entrepreneurship in our collective DNA. But the longer we delay, the greater the loss of industrial commons critical to robust and resilient supply chains.

We have numerous well-established and well-funded federal agencies and institutions, but each is focused on its own mission. It is like having a team of great players - but we don't have a coach. There is no entity in the federal government focused on U.S manufacturing competitiveness. To ensure that the U.S establishes the industries of the future, let alone prepare for the next crisis, we need a "coach" – that is a new entity in the federal government whose sole focus is to strengthen U.S. manufacturing competitiveness and to ensure that what is invented here is manufactured here. The goal is not to add another layer to the federal bureaucracy but to streamline 58 different "manufacturing" programs across 11 agencies and do so with a real national strategy and meaningful metrics which we currently lack. Federal programs must identify proper metrics that capture what needs to be accomplished but not how to accomplish it. For instance, in the context of R&D or entrepreneurship, patents, licenses and even start-ups are necessary first steps to generate returns, but they are poor proxies at best for economic impact because by themselves they do not create national wealth, jobs or national security. We need to manufacture our inventions at scale just like other countries have scaled our inventions.

We had at least two “Sputnik moments” in the recent past – Covid-19 and China 2025. These could be positive tipping points if we take the right steps to create a stronger, wealthier nation that is better prepared to confront the next crisis, be it medical, military or a natural disaster.

Chairman CARDIN. Thank you very much for your testimony.
We will now hear from Mr. Griffith.

STATEMENT OF JOEL GRIFFITH, RESEARCH FELLOW, FINANCIAL REGULATIONS, INSTITUTE FOR ECONOMIC FREEDOM AND OPPORTUNITY, THE HERITAGE FOUNDATION, WASHINGTON, DC

Mr. GRIFFITH. Chair Cardin and Ranking Member Paul, members of the Senate Committee, my name is Joel Griffith. I am a research fellow at the Heritage Foundation. These views are my own.

Supply chain issues continue to empty shelves, bottleneck production, and delay deliveries. The mismatch between supply and deficit-driven demand also contributes to the steepest rise in prices in 40 years.

The Biden administration has falsely insisted that these problems are transitory while blaming the pandemic, scapegoating businesses trying to fix the problems, and now even blaming the war in Ukraine. Meanwhile, this Administration refuses to acknowledge the primary culprits. That would be the ill-advised COVID restrictions that throttled production, the ill-targeted government transfer payments and diminished childcare options that shrank the workforce, the opposition by organized labor to common-sense port operations in California and New Jersey, new environmental regulations targeting diesel semi-trucks in California, and record government spending financed by the Federal Reserve.

In short, government reduced supply and stoked demand the past 2 years. This is a recipe for both shortages and higher prices.

The primary factor behind the supply chain issues are the ill-advised COVID restrictions. The pandemic itself did not shutdown the world. Government lockdowns and oppressive restrictions shut down large parts of the world. Erratic, unpredictable, arbitrary decisions by government bureaucrats made planning even for the short term nearly impossible. Politicians pushed millions of families and businesses off an economic cliff while blaming the pandemic.

Government policies also created the unprecedented labor shortage in the United States, with an employment gap of nearly 5 million workers presently. This directly contributes to supply chain issues. Of course, early in the pandemic, government restrictions on businesses resulted in mass layoffs as schools in many parts of the Nation closed their doors for much of the year and many of those formerly working in the childcare industry left. This made employment difficult for many parents.

But then compounded with that were generous Federal unemployment bonuses in terms of payout and duration. These payouts acted as a powerful disincentive to returning to work even as the economy reopened, especially when combined with multiple Federal stimulus checks. Many people delayed their return to the workforce even after benefits ended, instead, choosing to live off the stockpiled government cash. Private vaccine mandates and the Federal threatened mandate pushed others out of the labor force.

In short, misguided government policies shrank the number of people willing or able to work. Now businesses across nearly every sector in this country are desperate for workers and have expanded their pay and benefit packages. The number of unfilled jobs remains at record levels. Nearly half of business owners are unable to fill open positions, more than double the historical average.

Domestic government policies are compounding the global shipping problems in this country. California specifically matters because California receives nearly half of all containers coming into the United States. Yet, in the midst of the pandemic and the supply chain crises, California continued a phase-out of older diesel trucks.

Furthermore, organized labor in California continues to resist modernization in favor of inefficient modes of operation and, in fact, refused to fully expand their hours to alleviate the shipping backlog. The unions even secured a provision in the bipartisan infrastructure package that would prevent any funds from going toward automation.

It should be no surprise that California ports are among the least efficient on the planet. After sitting up to weeks on boats off the coast of California, containers of goods can wait weeks longer for the select few trucks and truckers that California's environmental and labor laws actually allow into the State. From there, those items are transported to California's border where those goods are transferred once again to other trucks that can, at last, distribute those goods to the rest of the country. These restrictions add time and hassle and back up the supply chain even further, raising the cost of goods themselves.

Last, while government has hampered the supply of goods and services, a tsunami of government spending financed by the Federal Reserve contributed to a rise in demand, including future demand, as households stockpiled income from both wages and government COVID–19 relief checks. The Federal Government has used the Federal Reserve as a piggybank, selling trillions of dollars of debt for newly printed money that then floods into the economy, driving inflation while bribing resources and workers away from businesses that desperately need them. The Central Bank more than doubled its balance sheet from just $4 trillion in March 2020 to nearly $9 trillion today as our overall M1 money supply jumped nearly five-fold, from $4.3 trillion to $21 trillion.

In conclusion, misguided COVID–19 restrictions combined with a Central Bank-financed government borrowing and spending spree set in motion the economic turmoil, skyrocketing inflation, and supply chain havoc that Americans are experiencing. Proposals for yet more government spending, more labor regulations, and more attacks on energy production, combined with the massive tax hikes in the latest budget package, risk further shocks. A full recovery, including a functioning supply chain, requires a full reopening across the world and an unleashing of our fossil fuel energy resources here at home.

Thank you.

[The prepared statement of Mr. Griffith follows:]

The Heritage Foundation

CONGRESSIONAL TESTIMONY

The Supply Chain Crisis and the Implications for Small Businesses

Testimony before
U.S. Senate Committee on Small Business and Entrepreneurship

United States Senate

March 30, 2022

Joel Griffith
Research Fellow, Financial Regulations
The Heritage Foundation

Chair Cardin, Ranking Member Paul, Members of the Senate Committee on Small Business and Entrepreneurship.

My name is Joel Griffith. I am a Research Fellow in Financial Regulations at The Heritage Foundation. The views I express in this testimony are my own and should not be construed as representing any official position of The Heritage Foundation.

Introduction

Supply chain issues in conjunction with rising prices continue to yield empty shelves, production bottlenecks, and delivery delays. The mismatch between supply and deficit-driven demand contributes to the steepest rise in prices in 40 years-- from the grocery store, to housing, to the gas pump. The supply chain crisis has been exacerbated by this administration's "war on energy," including shuttering pipelines,[1] closing off swathes of the nation to drilling,[2] and even threatening oil executives with prison for providing the gasoline American business and families depend on.[3]

The Biden administration has falsely insisted these problems are transitory while blaming the pandemic and scapegoating the businesses

[1] David Blackmon, "Why Biden's Killing Of Keystone XL Was An Energy Security Blunder," Forbes, March 10, 2022, https://www.forbes.com/sites/davidblackmon/2022/03/10/why-bidens-killing-of-keystone-xl-was-a-big-energy-blunder/?sh=13b0bf4f13fd (accessed March 29, 2022).

[2] Lisa Friedman, "Biden Administration Halts New Drilling in Legal Fight Over Climate Costs," *The New York Times*, February 22, 2022, https://www.nytimes.com/2022/02/20/climate/carbon-biden-drilling-climate.html (accessed March 29, 2022).

[3] Katelyn Caralle, "'We should put them in jail!' Joe Biden wants to prosecute fossil fuel executives for environmental damage—but doesn't mention son Hunter who helped run Ukrainian natural gas giant," *Daily Mail*, December 30, 2019, https://www.dailymail.co.uk/news/article-7837265/We-jail-Biden-wants-prosecute-fossil-fuel-executives-environment-damage.html (accessed March 29, 2022).

trying to fix the problems[4]—and now the war in Ukraine.[5]

In recent months, prominent media commentators and various media outlets have taken up this false attack on the very people suffering from the bad decisions being made in Washington. Meanwhile, the administration refuses to acknowledge the primary culprits: ill-advised COVID restrictions here and across the world that throttled production and shipping, flooded record government spending financed by the Federal Reserve that stoked demand, and labor force suppression from poorly targeted government transfer payments, shuttered schools, and diminished childcare options. Exacerbating the problem—particularly in California--are organized labor groups refusing to embrace common sense port operations adjustments and a continued slew of environmental regulations slashing the number of available trucks.

Proposals for yet more government spending, labor regulations such as the PRO Act, harsh environmental regulations on energy production, and massive tax hikes on businesses risk further shocks. Artificially stoking demand while crippling production is a recipe for both shortages and higher prices.

The primary factor behind the supply chain issues are the ill-advised COVID restrictions here and abroad.[6]

Contrary to conventional wisdom, the pandemic itself did not 'shut down the world,' government lockdowns shut down large parts of the world. Companies were forced by governments to abide by oppressive restrictions, driving many out of business. Erratic, unpredictable, arbitrary decisions by government bureaucrats made planning even for the short-term nearly impossible. Onerous distancing and capacity restrictions on processing plants crippled production.

Bad government policy set in motion the economic turmoil, skyrocketing inflation, and supply chain havoc Americans are experiencing, and new government policies continue to worsen the crisis.

As evidenced by the disparate economic performance in states, those that reopened society quickly or refused to impose shutdowns from the start enjoyed a much better economic environment. The Federal Reserve State Coincident Indexes—an approximation of state GDP—vividly illustrates how variant the economic recovery is based on states.[7] This index suggests economic output at the end of 2020 was actually greater than pre-pandemic in eight states which did not endure crushing, long-lasting shutdowns, such as Florida and South Dakota. This contrasts starkly with states such as Hawaii, Michigan, Rhode Island, and Massachusetts which remain more than 10% smaller than pre-pandemic. Overall, by the end of 2020, the 10 states with the fewest restrictions in place[8] averaged 4.7 percent unemployment—while the 10 states with the most restrictions averaged 7.1 percent unemployment.[9] Los Angeles suffered from

[4] In particular, this *New York Times* piece laid the blame for the state of the economy, the labor shortage, supply chain problems and inflation not on irresponsible policy choices in Washington, but at the feet of hardworking Americans trying to support their families. Neil Irwin, "Who's to Blame for Rising Prices?," *The New York Times*, November 16, 2021, https://www.nytimes.com/2021/11/16/briefing/inflation-biden-approval.html (accessed March 29, 2022).

[5] The Heritage Foundation, Fact-Checking the Media's False and Misleading Claims Blaming Americans for Rising Prices, Supply Chain Crisis, November 18, 2021, https://www.heritage.org/press/fact-checking-the-medias-false-and-misleading-claims-blaming-americans-rising-prices-supply (accessed March 29, 2022).

[6] Peter St. Onge, "Blame Government, Not COVID-19, for Supply Chain Collapse," The Heritage Foundation, October 18, 2021, https://www.heritage.org/transportation/commentary/blame-government-not-covid-19-supply-chain-collapse (accessed March 29, 2022).

[7] Federal Reserve Bank of Philadelphia, State Coincident Indexes, https://www.philadelphiafed.org/-/media/frbp/assets/surveys-and-data/coincident/coincident-revised.xls (accessed March 29, 2022).

[8]Adam McCann, "States with the Fewest Coronavirus Restrictions," WalletHub, January 26, 2021, https://wallethub.com/edu/states-coronavirus-restrictions/73818 (accessed March 29, 2022).

[9]U.S. Department of Labor, Bureau of Labor Statistics, Local Area Unemployment Statistics Data Series, December 2020,

11.1% unemployment and NYC 8.6%--cities where draconian restrictions and an army of compliance officers continued to push tens of thousands of businesses out of business. [10] Meanwhile, unemployment in numerous communities in Alabama, Idaho, Iowa, Nebraska, South Dakota, and Utah was close to 3% or less by the end of 2020.

Politicians who advocated for shutdowns and pervasive economic restrictions pushed millions of those who are unemployed or financially underwater off an economic cliff, while blaming the pandemic for the millions slipping "through the cracks."

Record amounts of government spending financed by the Federal Reserve also contribute to the supply chain problem.

While governments hampered the supply of goods and services, a tsunami of government spending contributed to the rise in demand—including future demand as households stockpiled income from both wages and government COVID-19 relief checks. Without a doubt, Federal Reserve policy is contributing to the very large burst of inflation. The federal government has used the Fed as a piggy-back, "selling" trillions in debt for newly 'printed' money that then floods into the economy, driving inflation while bribing resources and workers away from businesses that desperately needed them.

The unprecedented labor shortage in the United States—with an employment gap of about 4.7 million workers—is contributing to supply-chain issues and rising prices.[11] [12]

Early in the pandemic, governments forced many businesses to shutter completely or dramatically reduce operations. Many of these employees hardly 'elected' to stop working. Instead, their jobs disappeared due to governments criminalizing their employment. Meanwhile, schools in many parts of the nation closed their doors for much—if not all—of the academic year or imposed spontaneous, unpredictable interruptions. This made employment difficult for many parents. In addition, many of those formerly working in the childcare industry left. Generous federal unemployment bonuses[13] combined with state unemployment benefits resulted in the majority of unemployed Americans earning more off the job than on the job—acting as a powerful disincentive to returning to work, especially when combined with multiple federal stimulus checks. This specifically impacted warehouse, retail, and the hospitality sectors. Private vaccine mandates and a threatened federal mandate pushed others out of the labor force. In short, misguided government policies

https://www.bls.gov/web/laus/laumstrk.htm (accessed March 29, 2022).

[10]U U.S. Bureau of Labor Statistics, Unemployment Rate in Los Angeles-Long Beach-Anaheim, CA (MSA) [LOSA106URN], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/LOSA106URN , (accessed March 29, 2022). U.S. Bureau of Labor Statistics, Unemployment Rate in New York-Newark-Jersey City, NY-NJ-PA (MSA) [NEWY636URN], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/NEWY636URN , (accessed March 29, 2022).

[11] Rachel Greszler, "What Is Happening in This Unprecedented U.S. Labor Market," Heritage Foundation Backgrounder No. 3677, December 8, 2021, https://www.heritage.org/jobs-and-labor/report/what-happening-unprecedented-us-labor-market.

[12] Rachel Greszler, Joel Griffith, Elizabeth Hanke, Tori Smith, and Katie Tubb, "Inflation: Policymakers Should Stop Driving It and Start Fighting It," Special Report No. 252, The Heritage Foundation, January 20, 2022, https://www.heritage.org/sites/default/files/2022-02/SR252.pdf (accessed March 29, 2022).

[13] Rachel Greszler. "9 Reasons Why Federal Unemployment Bonus Subsidies Need to Go," The Heritage Foundation, June 10, 2021, https://www.heritage.org/jobs-and-labor/commentary/9-reasons-why-federal-unemployment-bonus-subsidies-need-go (accessed March 29, 2022).

shrank the number of people willing or able to work.[14 15 16]

As a result of so many dropping out of the labor market, the availability of workers is incredibly tight. Businesses across nearly every industry in the United States are desperate for workers and have expanded their pay and benefit packages. The number of unfilled jobs remains at record levels, with 10.6 million unfilled jobs in November 2021— more than 1.5 jobs available for each of the 6.9 million unemployed workers.[17]

The National Federation of Independent Business (NFIB) reports that 48 percent of business owners were unable to fill open positions in November—more than double the 22 percent historical average.[18] Accordingly, businesses are increasing compensation, and therefore their costs. According to NFIB, 44 percent of business owners reported raising compensation in November (a 48-year record high), and 32 percent plan to raise compensation in the next three months (a record high).[19]

Federal and state policies, especially in California, compounded global shipping problems.[20]

California matters because it receives nearly half of all containers coming into the United States. Yet, in the midst of the pandemic and supply chain crisis, California continued a phase-out of older diesel trucks. Organized labor in California continued to resist modernization in favor of inefficient modes of operation while refusing to fully expand their hours to alleviate the backlog. With such high labor costs (roughly three times the national average for port workers) and the union's unwillingness to operate on a 24/7 schedule similar to all other major ports in the world, it would make sense to increase automation, but the union has fought hard against that—including securing a provision in the bipartisan infrastructure package to prevent any funds from going toward automation.[21]

Consequently, in the World Bank efficiency rankings,[22] the California ports were among the least efficient on earth—behind even those of Mombasa, Kenya, and Dar es Salaam, Tanzania.[23]

[14] Rachel Greszler, "More Bad Policies and Government Spending Will Worsen Labor Shortage," The Heritage Foundation, October 13, 2021 https://www.heritage.org/jobs-and-labor/commentary/more-bad-policies-and-government-spending-will-worsen-labor-shortage (accessed March 29, 2022).

[15] Rachel Greszler, "Why has employment been so slow to recover?," *The Washington Times*, March 9, 2022, https://www.washingtontimes.com/news/2022/mar/9/why-has-employment-been-so-slow-recover/ (accessed March 29, 2022).

[16] 5 percent of unvaccinated adults surveyed said they would leave their jobs if their employers required them to get a vaccine or get tested weekly. Considering that the unauthorized Occupational Safety and Health Administration (OSHA) mandate would apply to an estimated 84 million workers, this could require employers to fire—and attempt to replace—up to 4.2 million workers. Liz Hamel et al., "KFF COVID-19 Vaccine Monitor: October 2021," Kaiser Family Foundation, October 28, 2021, https://www.kff.org/coronavirus-covid-19/poll-finding/kff-covid-19-vaccine-monitor-october-2021/ (accessed March 29, 2022).

[17] News release, "Job Openings and Labor Turnover—November 2021," BLS, December 8, 2021, https://www.bls.gov/news.release/archives/jolts_01042022.pdf (accessed March 29, 2022).

[18] NFIB, "Labor Market Challenges Breaks 48-Year Record as Biggest Issue Impacting Small Businesses," November survey through November 29, 2021, https://assets.nfib.com/nfibcom/2021-Nov-Jobs-Report-FINAL.pdf (accessed date March 29 2022).

[19] Unfilled job openings total 11.3 million—more than 1.8 jobs for every unemployed worker.

[20] Rachel Greszler, Joel Griffith, Elizabeth Hanke, Tori Smith, and Katie Tubb, "Inflation: Policymakers Should Stop Driving It and Start Fighting It," Special Report No. 252, The Heritage Foundation, January 20, 2022, https://www.heritage.org/sites/default/files/2022-02/SR252.pdf (accessed March 29, 2022).

[21] Eric Boehm, "America's Ports Need More Robots, but the $1 Trillion Infrastructure Bill Won't Fund Automation," Reason, November 9, 2021, https://reason.com/2021/11/09/americas-ports-need-more-robots-but-the-1-trillion-infrastructure-bill-wont-fund-port-automation/ (accessed March 29, 2022).

[22] "The World Bank and IHS Markit Container Port Performance Index 2020 Report," World Bank Group and IHIS Markit, (2021), https://ihsmarkit.com/Info/0521/container-port-performance-index-2020.html (accessed December 16, 2021).

[23] Lisa Baertlein, "California Ports, Key to U.S. Supply Chain, Among World's Least Efficient, Ranking Shows," Reuters, October 20, 2021, https://www.reuters.com/world/us/california-ports-key-us-supply-chain-among-worlds-least-efficient-2021-10-20/ (accessed January 10, 2022).

After sitting up to weeks on boats, containers of goods can wait weeks longer for the select few trucks and truckers that California's environmental and labor laws allow into the state, only to be transported to California's border where the remaining 70 percent of trucks in the United States are free to come and transfer the goods across the rest of the country. All this adds time and hassle, backing up the supply chain further, and raising the costs of the goods themselves.[24]

Labor costs and bottlenecks could increase further if the Teamsters' Union President James P. Hoffa convinces the Biden Administration to change the definition of employee so that businesses cannot hire independent truckers to transport their goods but must instead make do with the much smaller supply of expensive unionized truckers.

Long-standing government policies that limit how goods can be transported have exacerbated port delays, largely occurring at the adjacent Ports of Los Angeles and Long Beach. In particular, the Merchant Marine Act of 1920, commonly referred to as the Jones Act, mandates that any goods shipped by water between two points in the United States must be transported on a U.S.-built, U.S.-flagged vessel with a crew that is at least 75 percent American.[25] This law drives up shipping costs[26] on average by 270 percent[27] as this regulation excludes 99.8 percent of the world's shipping capacity from transport between states.[28][29] The sheer cost of interstate water transport due to the Jones Act often makes it more affordable to ship goods from Asia than between states. For example, in October 2021, millions of pounds of Alaskan seafood were being blocked from coming into the United States via Canada due to the Jones Act.[30]

What can be done:

Congress and the Biden administration should get the federal government out of the way by cutting red tape, by stepping away from massive tax-and-spending legislation that seeks to micromanage the economy, and by saying "no" to unions and activists who want to cripple our economy.[31]

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[24] Rachel Greszler, "California's 'Pro-Worker' Law Is Killing Jobs Left and Right," The Daily Signal, January 8, 2020, https://www.heritage.org/jobs-and-labor/commentary/californias-pro-worker-law-killing-jobs-left-and-right .

[25] Nicolas Loris, Brian Slattery, and Bryan Riley, "Sink the Jones Act: Restoring America's Competitive Advantage in Maritime-Related Industries," Heritage Foundation Backgrounder No. 2886, May 22, 2014, https://www.heritage.org/government-regulation/report/sink-the-jones-act-restoring-americas-competitive-advantage-maritime .

26 Federal Reserve Bank of New York, "Report on the Competitiveness of Puerto Rico's Economy," June 29, 2012, https://www.newyorkfed.org /medialibrary/media/regional/PuertoRico/report.pdf (accessed December 9, 2021). For example, according to a Federal Reserve Bank of New York report, the cost of shipping a 20-foot container from the East Coast to Puerto Rico is about double the cost of shipping to nearby islands that are not subject to the Jones Act

27 U.S. Department of Transportation, Maritime Administration, Comparison of U.S. and Foreign-Flag Operating Costs, September 2011, https://www .maritime.dot.gov/sites/marad.dot.gov/files/docs/resources/3651/comparisonofusandforeignflagoperatingcosts.pdf (accessed January 10, 2022), quoted in John Frittelli, "Shipping Under the Jones Act: Legislative and Regulatory Background," Congressional Research Service Report for Congress, updated November 21, 2019, https://crsreports.congress.gov/product/pdf/R/R45725 (accessed December 9, 2021). According to the Congressional Research Service, "A 2011 study by the U.S. Maritime Administration (MARAD) found that in 2010, the average operating cost of a U.S.-flag ship was 2.7 times greater than a foreign-flag ship, but MARAD estimates that this cost differential has since increased."

28 InfoMaritime, "World Merchant Fleet and Top 15 Shipowning Countries (2021*) Data," August, 22, 2021, http://infomaritime.eu/index.php/2021/08/22/top-15-shipowning-countries/ (accessed December 13, 2021).

29 Colin Grabow, "The Progressive Case for Jones Act Reform," Cato Institute, September 7, 2021, https://www.cato.org/study/progressive-case-jones-act-reform#failed-law (accessed December 10, 2021). The cost of a U.S.-built ship is "four to five times more costly than those constructed abroad," according to Colin Grabow, policy analyst at the Cato Institute, and "the shipyards that build these vessels are so uncompetitive that few commercial ships are actually built."

30 Editorial, "A Jones Act Fish Story, Chapter 2," *Wall Street Journal*, October 3, 2021, https://www.wsj.com/articles/a-jones-act-fish-story-chapter-two-alaska-shipping-bayside-canada-11633030744 (accessed December 7, 2021).

31 Peter St. Onge, "Why Biden's Infrastructure Bill Will Likely Only Worsen Supply Chain Crisis," The Heritage Foundation, November 17, 2021, https://www.heritage.org/budget-and-spending/commentary/why-bidens-infrastructure-bill-will-likely-only-worsen-supply-chain (accessed March 29, 2022).

- Acknowledge the misguided nature of the COVID-19 restrictions enacted by national, state, and local governments against people freely creating, working, shopping, and engaging.
- Repeal the Jones Act. The Jones Act drives up shipping costs, makes it more difficult to transport goods that are important to the food sector, and impedes access to affordable domestic energy. This is particularly noticeable in states such as California, where very limited pipeline infrastructure means California's gasoline must be transported from refineries to demand centers by way of expensive and artificially scarce ships and crews.
- Do not force workers into unions. Enable more flexible contract work by using a common law basis for independent contractor status. Abandon legislation and regulations that restrict work such as California's AB5 law and the similar federal PRO Act.
- Remove welfare work disincentives such as monthly child payments detached from work. End COVID-19 benefits policies that discourage work by the able-bodied.
- Eliminate Section 232 tariffs on steel and aluminum imports. Eliminate tariffs on manufactured goods imports including cars, trucks, and parts. Eliminate Section 301 tariffs and antidumping and countervailing duties on chassis so truckers can raise capacity.

A full recovery—including a functioning supply chain-- requires a full reopening across the world and an unleashing of our fossil fuel energy resources here at home—a stark contrast to printing more fiat currency, government borrowing, and government spending programs.

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Chairman CARDIN. Mr. Griffith, thank you for your testimony.

I thank all four of you for your testimony.

We will now go to five minute rounds. First, I really appreciate Ms. Kumar and Mr. Lam, two restauranteurs, one using the government programs, the other not using the government programs, both coming together at this hearing, raising the issue of supply chain. I think that is helpful for us to have that.

I want to just go back to the beginning of the COVID–19, when we got together particularly on this Committee under, at that time, Chairman Rubio—we had Senator Collins and Senator Shaheen and myself—in order to try to deal with the fact that small businesses are the growth engine of America. We need to keep them going during a pandemic. We know they do not have the resiliency. What can we do in order to keep small businesses afloat, to keep our economy from going into a deep recession?

And we came together with near unanimous actions in the House and Senate, signed by President Trump and later by President Biden. The centerpiece of that was the Paycheck Protection Program. The purpose of that was, pretty simply, to keep employees employed by small businesses, which have a challenge finding workers under any scenario, but if they were to lay off their workers they would collect unemployment insurance. It did not seem to make a lot of sense. Let us try to keep it going so we can keep the small businesses going. And it was successful.

We then expanded the EIDL program, the Economic Injury Disaster Loan program, because we knew there would be a great need for low-interest loans, and it was widely used for the very smallest of the small businesses, a very modest grant up to $10,000.

And then later we added specific sector relief for those industries that were basically ordered to be closed by government, restaurants being a prime example.

Now, quite frankly, we did not envision that every small business would need this help. So, Mr. Lam, I applaud you for making your decision. I do not know a lot about your business, but in the restaurant field, if it is a business that can do a robust carryout, it can do very well during a pandemic when people are eating at home.

So we could not define that in the legislation we adopted. Otherwise, we would have hamstrung its use. But if you are a restaurant that is in an area where there is not a lot of opportunities for outdoor dining and you really have to be in a confined space, you were out of luck.

So we did expect small business owners to exercise discretion. We were very disappointed by some small businesses that chose to use the PPP program that did not really have an economic need.

So the bottom line was the program, in its totality, worked. Why do I say that? Because our economy got through the worst of the pandemic without going through a major recession.

And we have problems today. You identified them, and I agree. High prices.

So I want ask both of you because you both seem to agree on the need on the supply chain challenges. It seems to me that it is not only a price issue. It is also an availability issue so that you can carry out what your restaurant is famous for and be able to use a product. So tell us just how deep is this problem today and what type of relief do you need in order to be able to do your business in regards to having a reliable supply of reasonably priced or competitively priced products?

I will start with Ms. Kumar.

Ms. KUMAR. Thank you for that. You know, for me, like I said, I am pretty used to pivoting and finding different suppliers for different things because we work so closely with farmers, but one thing I cannot get from farmers is fryer oil. I used to pay $35 a box for non-GMO canola oil because, you know, we like the healthier option. I have paid up to $120 for the same box of fryer oil, and now it has sort of settled at $85, if it is available. I have had to go from canola to sunflower to mixed blends and what not.

You know, I cannot operate a restaurant without oil. We have to cook with oil. So you know, that is an example of something that I cannot really come up with a creative solution for. I just have to sustain the increase in price, and if it was not for the restaurant grant I would not have been able to do that. And before that, the PPP I utilized for keeping my staff employed and being able to, you know, pay them fair wages.

So it is a combination of things, I think. You know, there is not one single solution.

A restaurant like mine is a fine dining establishment, and takeout is not something that we normally relied on. That is just not our business model. So you know, not all restaurants are created the same, and we all have different needs and strengths and abilities to pivot. But there is a blanket consistent problem, I think, that we are all facing, and I think you know, economic injury is not the same across the board.

But for those restaurants that qualify for the grant are restaurants that suffered a lot of loss, and that is something that you do have to prove before you qualify for it. So you know, it is great that somebody Mr. Lam is able to operate at a profit in June or July 2020, but that was not the case for us and for hundreds of thousands of other restaurants in this country.

Chairman CARDIN. Mr. Lam?

Mr. LAM. How do I say this? I am not insensitive to the struggles of restaurants. My family has had 17. I have had—we have had 6 successes, 11 failures. When I say failures, I mean we sold the restaurant at a loss. There was a recession. My stepfather actually had to declare bankruptcy. We owed so many people so much money.

I know what desperation feels like. I know what it tastes like. I have never forgotten that.

But I am sure that Ms. Kumar and her family, much as the same as my family, we came here because America promised a fair shot. We started our businesses, I am guessing, for the reason, the pursuit of happiness, one of our inalienable rights. It did not promise us success. That is upon us.

Now I understand that the issues we face today are largely out of our control. So if you are asking me, what can the government do, fix the supply chain issue.

I understand what she says when she means that oil has gone up. I am seeing the exact same prices. She is not lying. It is just very difficult to deal with these kinds of price hikes.

So as I said in my testimony, I am perfectly capable of failing and succeeding and taking care of my business on my own however I see fit, but the government can help me by stabilizing these prices. That is how it can help.

Chairman CARDIN. Thank you. I want to try to keep to the five minutes so every member can have a chance before we have to adjourn at 3:00.

Senator Paul.

Senator PAUL. Jason, thank you for your testimony. I am amazed by your story and your work ethic. We have a country right now where 38 percent of the people who can work choose not to work. So it is great to hear, you know, how hard you have worked in all facets of the restaurant business and how, you know, you really believe in the American Dream.

I understand you have a couple of guests here. I wonder if you would like to introduce your guests.

Mr. LAM. Yes. It is my daughter and my son right behind me, Paige [phonetic] and Colin [phonetic]. They are in high school and middle school.

Senator PAUL. And I guess I had one general question. How did you get your work ethic? Did it just happen? Were you born that way? Did you get it from your parents?

Mr. LAM. Grandparents, uncles, and parents, my family.

Senator PAUL. Do you think it is important that kids work?

Mr. LAM. Oh, I put them to work in my restaurant. Oh, trust me, I am teaching them how to pack orders and wash dishes.

Senator PAUL. Good. I think the commonality—and I think, you know, I said in my statement, you know, this is nature or nurture. Is this just some sort of accident that sort of happened? You hear from people, and they say, oh, the supply chain. It is just like it mysteriously came out of nowhere, or COVID caused it. No. It was our reaction to it.

You know, in the beginning, it was that we would not let you open up. So you did better with takeout than your counterpart, but government forced her to lose business because government closed her down.

We should be asking the question whether or not any of the things we did, the so-called mitigation, putting stickers on the floor—can you imagine the millions of dollars we spent on these idiotic stickers? Did we save anybody's lives? Did we change the course of the disease? A million people died with what we did. I am not positive any of these things changed the course of the disease at all other than immunity. We now have immunity. Ninety-five percent of us have immunity from either the vaccine or having had the disease.

But we need to know what the cause of this was. Otherwise, we are going to do this again. We are going to get another flu. We are going to get another pandemic. We are going to get another maybe worse virus the next time.

But when you describe the rising prices, they are twofold. Either your supplier is under quarantine from the government, shutting your supplier down, reducing the supply to elevate the price, or it is part of generalized inflation.

But it is also part of this bigger thing, something for nothing. People think, oh, well, there is no penalty to the PPP program. Everybody got lots of money. We kept everybody open. Or, everybody got unemployment checks. Well, the penalty is this; it destroys work ethic in people. But also, we are finding the penalty now is generalized inflation, and that is part of your problem in trying to figure out.

And you are right. It is beyond your control, but it is making your job, which is already a difficult job, predicting and running a restaurant, so much more difficult.

So I understand this, but I am not sure everybody does. And there is not agreement yet on both sides of the aisle what causes inflation. Basically, deficit spending, printing up the money, now the money is worth less. And that is what we have is this generalized inflation.

They said it was going to be transitory, and yet the Federal Reserve Chairman, yesterday, said transitory is now three years. I predict it is going to get worse before it gets better.

But it comes from the notion of something for nothing, which gets back to the whole idea of work ethic. So while I am incredibly proud of your work ethic, we need to be proud of the idea and understand the idea that there is no free lunch. There is nothing for free really. And when we offer people things for free, ultimately there is a penalty, and that is the penalty we are paying now.

Mr. Griffith, I think it is perplexing to people when they look on TV, even to myself. You look on TV, and you see just the ships lined up off the coast of Long Beach and Los Angeles. One thing that you mentioned and others have mentioned—and I did not really realize this, but if you could go into any more detail—is that I guess most ports in the world work 24 hours a day. They have shift work.

My brother grew up doing shift work at Dow Chemical. All the plants, I thought, did shift work. You do not have to work 24 hours. You work shifts, either of 8 or 12 hours, and then someone else comes on. It is not like inhumane, but it is the way we get things done.

But tell us a little bit more about what goes on in Long Beach, why there is not 24-hour—you know, why they have not adapted, you know, to all those ships sitting out there. How could we possibly just look at all those ships and leave them there?

Mr. GRIFFITH. Thank you, Senator Paul. One interesting data point coming out of the past year is the year-over-year number of containers coming in to Long Beach-Los Angeles were virtually unchanged, and yet this backlog continued. And this was twofold. A lot of these social distancing restrictions, capacity restrictions, actually were perpetuated both in Long Beach and also in New Jersey. They refused to lift those in a timely manner. And instead of going ahead and expanding those operations to the 7 days a week and 24 hours a day, the unions there, the organized labor bosses, were incredibly resistant to going ahead and expanding those hours to actually alleviate the problem.

And then when we saw the infrastructure package that passed in a bipartisan fashion in Congress, some of those resources could have gone to helping them modernize and become more efficient, and the union groups balked again. And that is a big part of the reason why that backlog continues now off the coast of California.

Senator PAUL. Thank you.

I guess I am in charge now. Senator Shaheen.

Senator SHAHEEN [presiding]. No. Actually, Senator Cardin asked me if I would take over while he went and voted, but I want to thank all of our witnesses for being here.

And, Dr. Kota, I would like to begin with you because you said I thought very persuasively in your opening remarks about the importance of the role of government to help invest in innovation, to help encourage innovation, that we need if we are going to be successful with manufacturing and technological development.

One of the programs that I think has been very important in encouraging innovation is the SBIR/STTR program, and I understand your firm received the Tibbetts Awards in 2015 through the SBIR program. Can you talk about what you were able to do as the result of getting that SBIR grant that you might not have been able to do without that kind of support?

Mr. KOTA. Yes. Thank you, Senator. So we have this firm it is more than 20 years now old—and this technology we developed for morphing aircraft wings in flight because it has been known for a long time to save fuel but also reduce noise, and there are many other benefits. But stuff like that, you know, the private sector businesses do not fund because it takes many years of building and testing prototypes and all. So none of that would have happened had it been not for SBIR.

It started as a phase one SBIR contract, and that led to several successes where thanks to U.S. Air Force, SBIR program, and beyond, that were able to demonstrate it on actual flight tests and now we are implementing on military aircraft, which is all a good thing. So none of that would have happened without the SBIR program.

I had a few other SBIRs as well through other agencies. So I think that is one of the really good tools in or tool box, SBIR program, and I hope you all strengthen that program in many ways. And I testified earlier on ways we could—I had several years of experience working on SBIR programs with various agencies. So I certainly hope that you continue to strengthen it, and I can elaborate more on ways we can strengthen it.

Senator SHAHEEN. Well, before I ask you to do that, as you know, you are probably aware that those programs are going to expire in September of this year, and so that would—if we do not reauthorize them, that would eliminate that support that encourages the kind of innovation that you are talking about. Do you have thoughts about what we could do to strengthen the program?

Mr. KOTA. First of all, I hope it will continue to grow.

Senator SHAHEEN. Me, too.

Mr. KOTA. I do not know the details about any of that, but I hope it continues to grow. And there are ways we can strengthen it in terms of—you know, I do not want to get too much into the weeds, but you know, even—you know, with startup entrepreneurs, they have different sets of needs. It is not the tax breaks they need. It is actually having some funding to file patents, so the patent expenses should be included, on one hand.

On the other hand, the other one is the different agencies have different ways of running this program. Some do much better than others. There is a way——

Senator SHAHEEN. Yes, that is absolutely correct.

Mr. KOTA. And there is definitely a way we can, you know, make it uniform and minimize, make it like a 1040EZ for an SBIR form, so to speak.

And the other thing you could do is actually if you think—if you go back and look at the data about how many SBIR phase twos that were successful and did not go anywhere because there was no follow-on funding. There is a phase three program. It has its own challenges.

But having said, there are ways to make sure that we just do not drop the ball. We need to have a strategy what to do with our own good ideas so that ideas turn into products made in this country. So there are other programs like the Rapid Innovation Fund in Department of Defense as an example. Those are the kinds of things we need to put in place so then we know how to take a success and take it to the next step. That is something that we need to connect the dots.

Senator SHAHEEN. Thank you.

Ms. Kumar, you talked about the importance of the Restaurant Revitalization Fund, which I am a big supporter of and hope that we can get that funded in a way that we address the applications that are still in the queue. But obviously, there are long-term challenges that restaurants and the hospitality industry face that are not going to be addressed just by that program.

As you talked about adapting to address the changing markets and to respond to COVID, are there other things, other lessons that you learned, that you think are translatable to other restaurants and small businesses that we should be taking away from what we have just experienced?

Ms. KUMAR. Absolutely. I think restaurants like mine have tried so many different things over the pandemic, and we have walked away with a lot of lessons. One is, you know, how to pay our employees more, how to make sure that they not only have an entry-level job but they can stay with us and build a career, a very respectable and well-paying career in hospitality.

But more so, there was a period in the beginning of the pandemic where we were able to, you know, participate in feeding the hungry, and there were grants available to do packaged meals for folks in need, children who were not in school and needed school lunches.

And there are continuing to be more programs that are developing out of former nonprofits that would just do sort of a little bit more elitist fundraising for hunger causes but now are figuring out ways that—you know, lessons that we learned during the pandemic of how to bridge the gap between, you know, a restaurant that has to charge a certain price point to serve its guests but then also be able to keep people, give them more hours, give our staff more hours, but—and also feed people who are food-insecure, which unfortunately is a very high number, especially among children in North Carolina.

So those items in particular are very inspiring to me, and I think that there are very real ways that we can push our industry forward and take care of our staff and take care of our communities, which is something that I think our industry has always been very proud to do.

Senator SHAHEEN. Thank you very much.

Senator Rubio.

Senator RUBIO. Thank you. Thank you all for coming in today. Let me start with Dr. Kota. It is great to see you again. You were here with us in 2019 for a reauthorization hearing.

And you know, there was a recent study of 150 MIT manufacturing startups over the past decade, and it found that 70 percent of them scaled in China and none of them in the United States. I guess my question is—you know, I think you have alluded to this already—how common is it to see offshoring or international transfer of a product or IP that is developed using U.S. taxpayer funds?

Mr. KOTA. It is over many, many years I have seen that happen. I am not talking about the intellectual property theft part. That is a big issue to be addressed. That is leaving that aside.

Willingly giving our IP—unwillingly giving away our IP to other countries, particularly to China. Why China? Because what happens is when you even look at comments about SBIR you have—the typical scenario is a professor or a company spends like 5, 10 years working on a program with one of the Federal agencies, gets 10, 15, 20 million dollars in funding, and does the research, and then finally a little nugget of a great idea that comes out that is worthwhile scaling that has a promising future. Then once you do that, that agency, that particular program, they have nothing to do with it. You are done with it. You are on your own, and there is nowhere to go to.

So there is no—innovation is about—you know, it is like what do you call it? The relay race. You hand the baton to the next and take it all the way.

So what happens is many people I personally know and heard stories of and read about, they get frustrated. There is no way to know. Here is a great idea. It is already tested. Now what do we do? I need some money to scale it and test it in a wind tunnel or whatever.

This is when the phone rings, at least the phone used to ring, or an e-mail comes from China, particularly because they are doing everything they can to do what is good for them. And so they offer all kinds of incentives for you to go there. So there are lots of researchers being tapped in that way. The technology that we spent millions of dollars developing goes over there, the best ideas, and that is where the scaling is done.

And the MIT is a great—that 150 manufacturing startup study, that is a great example. It happens all the time.

Senator RUBIO. Mr. Lam, I wanted to ask you because your story in particular is one I think resonates with a lot of people. If you could just describe both—on the labor shortage side, what is it that people say, or what is the rationale people use, or what is your sort of real-life understanding of why it has been so hard to get people to come into the labor force and do this job?

And secondly, and more important I think to this overall discussion, is when product—when the prices of your supplies and/or labor go up, I am not sure people fully appreciate that at some point the numbers have to work. You cannot charge less for something than what it takes for you to bring it. You cannot do it at cost. You have got to make some profit, or you will not be a business for long.

If you could describe the mechanics of the labor shortage, why you think people are not working or what they say, and the second piece is what happens when the price of labor and the products goes up, how you have to price that through to the extent you can.

Mr. LAM. So from just personal experience, on the onset of pandemic, obviously everyone started getting unemployment checks, and then I tried—after we opened back up for dine-in around mid-October, I called everyone back as part of my duty to extend and invite them back to get their jobs. I never said they were laid off. I never said they were fired. At any opportunity, they could come back, at any time. And resoundingly, my staff all said, “No, because I was getting paid more to sit at home collecting my unemployment check than I would be coming into work.” That is separate.

So now I am still hiring. I am still short-staffed. I still need people, front of house mostly—servers, busboys, hostesses, whatever. And I am willing to pay anywhere from 15 to 20 dollars an hour. And these kids and these people are saying, increasingly, “No. I actually do not want to do that. I actually want to like work in the kitchen. I do not want face-to-face interaction with people. I just want to work in the kitchen,” which makes no sense to me.

I am willing to give you a job paying you good money, and you can become a manager. You can become just—you have to start at the bottom, and I am willing to give you an opportunity to do so. They do not want it, and no one is really applying for it. No one is really interested in doing that.

Second part, the supply and the inventory. You are right. I have had to increase my prices, like I said in my opening testimony, three times in the past six months alone.

Part of the reason why I think the EIDL and these grants and programs is a bad idea is because I have my invoices. I have all of them here. I can show you real, tangible numbers of how much money I am paying.

As Ms. Kumar alluded to earlier, oil has gone up like crazy, and chicken, vegetables, very, very simple items, which in and of itself is innocuous when you see price increases like this.

But when I am selling one plate of chicken teriyaki, let us say, the chicken has gone up. The bell peppers has gone up. The mushrooms in it has gone up. The onions has gone up. The box I am putting it in has gone up. The bag that I am putting the box in has gone up. The price that I have to pay for the online services I have to pay for has gone up. The propane has gone up. Everything. The pay that I have to pay my employees has gone up.

I cannot continue to sell this one plate of chicken teriyaki for the exact same price as I did in 2019. It used to be $12.50. I am selling it for $15 now. That price is reflective of what I have to deal with and the supply chain issues that I see on a day-to-day basis.

Now, the programs. Let us say I can get $10,000 from this EIDL program. You can do the math on these invoices. That $10,000 is going to last me exactly one month. Let us say I get $100,000. Great. I can skimp along for another 10 months.

What I need, what restaurants across the board need, is more stability and going back to the prices that it was in 2019, 2018, where it was actually affordable and competitive to be able to do business.

I am not an economics professor or a fellow or a student, but I think the way it works is that prices go up, you charge people more, and it is just an ever growing fire that feeds on itself and makes it worse.

Ms. KUMAR. Can I add something to that real quick?

Chairman CARDIN [presiding]. I am afraid I cannot because we are running short on time because of a briefing we have on Ukraine. So let me give Senator Hirono a chance.

Senator HIRONO. Thank you very much. I was sitting here listening to all of you testifying, and thank you very much for being here. What I do understand is that this is not a simple situation because for a long time manufacturing in our country was outsourced to other countries providing cheap labor. Isn't that a true statement, Mr. Kota or Professor?

Mr. KOTA. Yes.

Senator HIRONO. And I emphasize the words "cheap labor." We in our country, in America, got used to getting our goods cheaper because it was made through cheap labor in other countries, and now that we are all focused on making it in America we are not necessarily willing to pay the prices that we need to pay. And you cannot blame workers because why should we exploit cheap labor in order to get cheap goods. I do not think that is where I want our country to be.

So I do not know how—Mr. Lam, you said you would like things to be the way it used to be, where costs were lower, et cetera, but I do not know how you achieve that really.

Dr. Kota, I am sorry. Are you "Dr. Kota" or "Mr. Kota"?

Mr. KOTA. Mr. Kota is good enough.

Senator HIRONO. So how do we get back to that? Is that really not where we are heading, that we are going to go back to some kind of situation where we continue to basically use cheap labor in other countries to get us the goods that we need? Is that what we are needing to do?

Mr. KOTA. No, not—no. It started out that way back in the late 1970s and early 1980s, but the point is we are no longer going to China necessarily for cheap labor. China is well past that.

On the other hand, think about countries like Germany, Japan, and South Korea. They have a very strong advanced manufacturing and a very strong manufacturing innovation ecosystem. Wages in Germany are 40, at least 40, percent higher than here. In Japan and South Korea, they have high wages. They have higher taxes. Their energy costs are significantly higher. Their regulations are just as strict.

And their automation is significant, three to six times more automated than we are here, and yet, they have a strong manufacturing base because their private sector companies have longer-term goals. They have—they care about stakeholders, not just shareholders.

In fact, they are investing here in, our manufacturing facilities in this country. You know, from Siemens to Toyota, they have been around for a long time, and Honda and other companies, BMW. They are investing here, and we are rushing over there to other countries.

So I think it has to do with two things. One is our large corporations have, you know, these quarterly shareholder profits that have taken over for 40 years, and that seems to be working just fine for them, and I do not think it will change. COVID–19 or something else, that is not going to change it. They are going to go to a different country now.

But we need to think about how to build our capacity to innovate, and that means we need to invest in small manufacturers, I say, because when we invest in small manufacturers then the big guys will come.

Senator HIRONO. I think you noted in your testimony how we can encourage the small- and medium-size manufacturers through grant programs and you laid out an array of suggestions based on some of the discussions that you have been having across the country with small manufacturers as to what would meet their needs, and I think that those are some suggestions that we should incorporate.

And recently, the President announced a new Manufacturing Office at SBA. I think you noted that that program could really facilitate the support for medium and small manufacturers. Can you expound a little bit how you think that an entity like this could provide the kind of support that we are talking about?

Mr. KOTA. Absolutely. I think that is a very encouraging sign, to have this, because SBA has focused mostly and broadly on businesses at large, not so much manufacturing. But now with the Manufacturing Office, it is very encouraging.

How they can support is, again, connecting the dots and looking at what—you know, we are investing so much in other agencies, and they are investing in so many technologies. What happens is just like I described before. When the technology is proven, then there is nowhere to go. This is where, instead of nowhere to go after the technology is proven, SBA can play a critical role in leveraging other technologies developed by other agencies and then nurturing the technology and then putting the pieces together so that we can do at least pilot production, start the pilot production here, so they can work with it, whether it is a new Technology Directorate at NSF or even existing offices, existing Federal agencies.

So, yes, we need that. I was talking about having a coach, having somebody, you know, looking across and connecting the dots. And I think that would be a very—it would be very, very it will have a great multiplier effect in terms of what SBA can do in that way.

Senator HIRONO. If I could mention, Mr. Chairman, you obviously have a familiarity with SBA programs that are successful. Yes?

Mr. KOTA. Yes, yes, I am very familiar with the SBIR program.

Senator HIRONO. Yes.

Mr. KOTA. Because of personal experience for over 25 years.

Senator HIRONO. STTR/SBIR, I very much support.

I was going to ask, Mr. Chairman, if he could provide us a list of those programs. I do acknowledge that you say that a lot of these programs are in their silos. They need to be talking to each other, but—you know, it would be—I would like to know which of the SBA programs actually help small businesses and manufacturers, if you could maybe help us with a list so we can continue to provide support for these programs that actually work.

Thank you, Mr. Chairman.

Chairman CARDIN. Senator Hirono, thank you. I know Senator Shaheen also asked about the SBIR/STTR programs. We have a challenge because they have to be reauthorized, so we have a time problem getting that done. The Administration is aware of that. So we are going to be working on that this year to make sure that program is extended.

Ms. Kumar, you wanted to respond?

Ms. KUMAR. Well, Ms. Hirono kind of touched on it. I was going to say that, you know, supply chain issues and pricing is not just a domestic issue. We rely so heavily on the global market for even food and canola oil and things like that. So it is not just something that the government can just magically fix when, you know, China is in lockdown and different countries have different waves at different times. It is a complicated issue, and it is not something that anybody can wave a magic wand over.

Chairman CARDIN. You are exactly right. The supply chain challenges could be eased considerably if we had domestic source, and manufacturing is a good example. How do we preserve manufacturing for supply chain and technology and innovation and job growth in America? And to me, the key there is what do we do encourage small manufacturing companies because that is where the growth will take place.

But the entire supply chain, really much depends upon domestic sourcing as much as possible so that we are not subject to international interruptions, whether it is because of autocratic governments, because of war, because of transportation issues, energy issues, et cetera. So we have a bill that has passed both the House and Senate—it is now heading toward conference—the Competition Bill that deals with a lot of these supply chain challenges but more on the larger scenes.

We have to make sure that we have supply chains so your restaurants can get a predictable—I like, Mr. Lam, when you said predictability. That is a critically important part of your business, to know how you can plan your business for the next year, let alone your challenge whether you do it for the next week right now because of the changes. How do you invest in decisionmaking if you do not know what the supply chain is going to be and the pricing of that is going to be?

So the more we can do this domestically, the more we can protect our own sources, the better off we are going to be.

Dr. Kota, I think your comments are right on target about manufacturing and incentives for smaller companies.

Several of our colleagues were here, but because of the briefing that I mentioned earlier for all Senators on Ukraine they had to leave. I know Senator Risch is going to be asking some questions for the record. I saw that we had Senator Hickenlooper here; Senator Ernst was here. I believe Senator Hawley was here by WebEx. So we have had other members that have been here, but unfortunately could not stay because of the briefing.

Let me thank you all for your testimony. The record will stay open for two weeks, and if members have questions we would ask that you try to respond in a prompt way.

With that, with the Committee thanks, the Committee will stand adjourned.

[Whereupon, at 3:04 p.m., the Committee was adjourned.]

APPENDIX MATERIAL SUBMITTED

March 29, 2022

The Honorable Ben Cardin
Chair
Committee on Small Business
United States Senate
Washington, DC 20510

The Honorable Rand Paul
Ranking Member
Committee on Small Business
United States Senate
Washington, DC 20510

Dear Chair Cardin, Ranking Member Paul, and Members of the Committee:

My name is Scott Lincicome. I'm the Director of General Economics and Trade at the Cato Institute, where my research has recently focused on manufacturing, industrial policy, and global supply chains. I am pleased you are holding a hearing on March 30, 2022, titled "The Supply Chain Crisis and the Implications for Small Businesses." Through this letter, I hope to offer a contrasting view on American supply chains and economic resilience – one that I hope will inform your consideration of this hearing's important topics. Importantly, I should note that the Cato Institute and its scholars do not endorse, oppose, or otherwise lobby on behalf of (or in opposition to) specific legislation. My comments are thus intended to be for educational purposes only.

Accompanying my written testimony are three recent studies that I have authored on the state of American manufacturing and its nexus with national security; on pandemic-related supply chain issues; and on the history of industrial policy, here and abroad.[1] Summarizing this research in a few short minutes would of course be impossible, so I instead want to leave you with several core themes that carry across my work and are relevant to this committee's deliberations:

First, much of the recent supply chain problems stem from simply the economic effects of an unpredictable, once-in-a-lifetime global pandemic, which scrambled the typically predictable global supply-and-demand patterns on which complex production and logistics networks have long been based. As the United States reopened last summer, for example, demand for imported industrial inputs and consumer goods skyrocketed, but many major exporting countries, especially in Asia, were still mostly closed-down. Muted consumer demand from these same countries also dented their typical purchases of U.S. products, such as farm goods. The result was a major imbalance in the usual shipping container flows to and from the U.S. This was then amplified by temporary closures at specific ports and factories because of isolated COVID-19 outbreaks.

Another serious mismatch has arisen between total available shipping capacity and abnormally high worldwide demand. Some of that demand is the natural result of post-COVID reopenings, as vaccinated consumers make up lost time and companies restock

[1] https://www.cato.org/publications/policy-analysis/manufactured-crisis-deindustrialization-free-markets-national-security; https://www.cato.org/pandemics-policy/pandemic-does-not-demand-government-micromanagement-global-supply-chains; https://www.cato.org/white-paper/questioning-industrial-policy.

depleted inventories, aided by Americans' increasing comfort with e-commerce. However, some of the mismatch is likely owed to psychology: Just as consumer hoarding of toilet paper and other essentials emptied store shelves last year, now, economic uncertainty and a fear of running out have pushed retailers and other large importers into stockpiling and panic-buying.

This created a self-fulfilling "bullwhip effect" that pushed others to do the same. Lean, "just-in-time" inventory management was replaced by a "just-in-case" approach that saw some buyers, especially in the U.S., double or even triple their inventory levels. Shipping capacity just can't keep up: Logistics firm Flexport estimates, for example, that global demand for ocean cargo space last Fall was 20 to 30 percentage points higher than available capacity, even though ocean carriers have deployed every ship they have, including ones "not even designed to carry containers."

The pandemic's supply-demand imbalances then spilled into the United States's logistics infrastructure, creating bottlenecks that have exacerbated the original problem. This starts with the ports: As Flexport noted in June, effective ocean freight capacity was 25% lower than what was technically deployed "because so many vessels are caught up in record bottlenecks at ports." The situation deteriorated further over the summer, with record numbers of waiting ships at the ports of Los Angeles/Long Beach, Oakland, New York/New Jersey, Savannah, and Charleston. The worst of it, however, has been reserved for the LA/Long Beach port complex, which is the busiest port in the U.S., handling around 40% of total cargo volumes each year. Ships there were even forced to take the unprecedented step of just drifting offshore because all port space and contingency anchorages were filled. Many speculate that these ships' anchors caused the recent oil spill off the California coast.

Other chokepoints and simple coordination problems have added to U.S. port woes. Shipping containers, for example, have been stacked up at port, thus preventing additional boxes from being quickly unloaded. This is because there is insufficient truck and freight rail service available to pick them all up. Those backlogs, in turn, are reportedly due to a shortage of intermodal chassis — what shipping containers sit on when trucks move them across the country — and warehouse space. Without a nearby place to put their orders, U.S. importers have left their containers at the ports, using them as de facto warehouses (and paying high "demurrage" fees to do so). Truckers also report that preexisting port rules on hours of service, appointment times, and "dual transactions," which require trucks to drop empty containers in order to pick up full ones, have limited their ability to clear port backlogs. And nobody, it seems, can find enough workers.

Regardless of which link in the chain really is the weakest, these strains have had a collectively big effect. West Coast backlogs have also pushed shippers to use East Coast ports (via the Suez and Panama Canals), adding to their backlogs. Thousands and thousands of containers full of items Americans have ordered are effectively out of use while they wait days, even weeks in California, for a spot at U.S. ports. They then spend several more days awaiting pickup. It's worth reiterating: Fewer containers in use means higher shipping prices and more stress on the domestic and international supply chain systems. And all of this eventually redounds to U.S. companies and consumers.

For these problems, there is unfortunately no easy fix. In part, this is because port expansions, warehouse and ship construction, worker training, and other capacity expansions simply take time, as does the calming of global supply and demand patterns. We therefore expect that supply chain issues will weigh on the U.S. economy until at least the Fall.

On the other hand, not *everything* can be blamed on the pandemic alone, and this brings us to my second key point for today: myriad local, state, and federal policy have surely exacerbated pandemic-related supply chain problems by over-inflating domestic demand and intentionally diminishing U.S. supply chain capacity, efficiency, and flexibility.

On the demand side, there is little doubt today that the unprecedented amount of monetary and fiscal stimulus implemented during the pandemic has strained global supply chains and contributed to inflation. Household demand, fueled in part by stimulus payments, was channeled into durable goods like cars and furniture, putting retail spending on those items far above the pre-pandemic trend. New research from the Federal Reserve, in fact, estimates that U.S. stimulus packages caused a 2.5 percentage point increase in inflation because stimulus checks boosted domestic demand for durable goods but did not (could not) produce a corresponding increase in supply of those goods, thus increasing prices. A February 2022 analysis from Morgan Stanley found basically the same thing, calling this trend the single largest factor in the rise in inflation. President Biden himself acknowledged the situation in a November speech in Baltimore, blaming inflation on "higher demand for goods" caused by stimulus checks, higher wages, and pandemic-related barriers to in-person services like restaurants.

This channeling of stimulus-soaked demand into goods and away from services inevitably affected manufacturing supply chains, which had their own pandemic-related hiccups and simply couldn't handle the extra volumes for practical and policy-related reasons. In fact, the World Trade Organization's chief economist estimates that increased demand for goods is a major factor behind supply chain issues, accounting for anywhere between 65 to 75 percent of supply shortages.

On supply side policies, the problems start at the ports. Longshoremen's unions on both U.S. coasts have leveraged their political power and ability to shut down ports (and thus the economy) to negotiate contracts that inflate salaries, limit working hours and job flexibility, and prohibit the efficiency-enhancing automation that ports in Asia and Europe adopted decades ago. Unions have also used favorable labor regulation to fight ports' efforts to supplement their workforces with non-union workers – something that might have come in handy during the current worker shortage.

Furthermore, the Merchant Marine Act of 1920 (aka the "Jones Act") and the Foreign Dredge Act, which require coastwise shipping and U.S. port dredging to use American-made, -owned, and -crewed ships, have inflated costs and deterred port expansion projects. The Jones Act, which has made coastwise shipping prohibitively costly, pushes companies to avoid these costs by "port hopping" up and down U.S. coasts using larger, foreign-flagged ships that take longer to offload and are prohibited from picking up additional cargo while they're in port. The Foreign Dredge Act, meanwhile, further diminishes U.S. port and shipping capacity by limiting available port dredgers and dramatically raising the cost of dredging—dredging that ports need to accept more, bigger, and fuller ships.

Finally, state and local laws, especially in California, have prevented ports and other companies from expanding container storage. Last Fall, for example, we learned that local zoning ordinances prevented container stacking on aesthetic grounds and had caused massive backlogs at the Los Angeles/Long Beach port complex, in turn preventing ships from quickly unloading their cargos. Various California land-use and environmental regulations, meanwhile, have made building new warehouses exceedingly difficult—a serious problem now that free warehouse space is essentially non-existent. According to one recent estimate, building new warehouses can take as many as nine years in parts of California, compared to a still-slow two years elsewhere in the country.

As a result of these and other policies, not one American port ranks among the 50 most efficient in the world, while the largest U.S. port system – Los Angeles/Long Beach – trolls near the bottom of the 350 global ports examined. Major U.S. ports also handle fewer ships than many of their foreign counterparts. No wonder, then, that ports have struggled to process record container volumes, and that port trucks are waiting record times to pick up cargo.

Speaking of trucks, several U.S. policies also have diminished available trucking capacity, which is now so desperately needed. For example, U.S. trucking companies last fall complained that the planned federal vaccine mandate for private companies was reducing the number of available drivers. The United States also has barred Mexican trucking companies, which have the largest and closest supply of potential trucks and drivers, from carrying freight within the United States or from Mexico to inland U.S. destinations – despite federal government pilot programs qualifying them as safe and environmentally-friendly. Massive immigration backlogs – totaling more than a million potential workers – add to our current domestic labor shortage, which many port officials, importers, and logistics experts blame for trucking and warehouse bottlenecks. The Jones Act has pushed domestic freight that could have been shipped by water onto trucks and trains, because the more efficient coastwise shipping is so expensive. This means less U.S. trucking space for international cargos now clogging up American ports.

Meanwhile, high U.S. tariffs have been imposed on intermodal chassis, which trucks use to carry containers from port to warehouse, from China. With the world's largest chassis supplier effectively banned from the U.S. market and insufficient non-China production available, a serious shortage has ensued. California emissions regulations, moreover, have reportedly pushed some port truckers, whose rigs the regulations suddenly made obsolete, out of the industry.

These policies have helped to create a domestic port, logistics, and infrastructure system that just can't handle the unexpected stress of the pandemic (and related government stimulus). They may have had minor and diffuse effects during the best of economic times but have collectively become a major and acute problem today – especially given that supply chains were already reeling from a generational, global shock.

Finally, recent events should serve as a cautionary tale about proposals to "fix" the current supply chain situation with protectionism and on-shoring. Domestic supply chains rely on most of the same labor, transportation, and infrastructure that global ones do. Without substantial changes to the U.S. policies that weakened our global supply chains, onshoring would simply trade a vulnerability to foreign shocks for a vulnerability to domestic ones – while making the whole system even more sclerotic, costly, and inefficient than it already is.

Global supply chains and a nation's openness to trade and investment inevitably involve a risk that a "shock"—war, pandemic, natural disaster—hits the world or certain key nations and roils domestic supplies. Such issues surely have arisen since last year, as has been widely reported. Far *less* reported, on the other hand, is how the U.S. and global manufacturing sectors immediately began adjusting to whatever supply chain challenges arose. There is perhaps no better example than the medical goods in such short supply in early 2020. According to a December 2020 U.S. International Trade Commission (ITC) report, U.S. manufacturers and global suppliers acted quickly to procure or produce new drugs, medical devices, personal protective equipment (PPE), cleaning supplies, and other goods in high demand. (Particularly "resilient," in the ITC's own words, were the U.S. pharmaceutical, medical device, N95 mask, and cleaning products supply chains.) The Commission's findings have been supported by reams of anecdotal evidence of U.S. investors, producers, and importers jumping to produce medical and other essential goods during the pandemic. By January 2021, in fact, members of Congress were writing President Biden to complain of a potential *glut* of American-made PPE!

Such events are not only a testament to the tireless work of manufacturers, retailers, and logistics professionals throughout the pandemic, but also a cautionary tale for U.S. policymakers: by the time Congress decides to intervene in a certain market, it will look much different than the one on which that decision was based, *and* it will change again by the time any government-supported production comes online.

Furthermore, while reshoring supply chains might have insulated U.S. producers and consumers from external supply and demand shocks, those same policies can amplify domestic shocks and reduce overall economic growth and output to boot. Such a risk emerged in 2021 when unprecedented cold hit Texas: several U.S.-based semiconductor manufacturers were forced to idle production capacity, thus exacerbating the very chip shortage that is today often blamed on "globalization." A few months later, we learned from the *New York Times* that Germany – a nation more focused on manufacturing than the service-oriented United States and often a model for a new American industrial policy – has suffered greater economic disruptions because of its "dependence" on manufacturing and goods exports. Both experiences are consistent with past research showing that manufacturing and mercantilism are not an easy recipe for economic resiliency; that domestic economic shocks can cause the same supply chain problems as foreign ones; *and* that the diverse U.S. economy is not nearly as vulnerable to global economic turmoil as is often claimed.

For these reasons, future government action on domestic and global supply chains should focus not on trying to outsmart the market or deliver targeted federal grants or loans to privileged companies and workers, but instead on broadly emphasizing economic openness, diversification, and flexibility. Reform efforts should start with the supply side regulatory impediments discussed above, and others that impose similar harms to the U.S. economy. Demand-side pressures may ease in the coming months, but the supply side will remain vulnerable, as long as governments intentionally diminish available port and transportation capacity. Policies liberalizing trade and foreign investment should also be considered, as they would support U.S. manufacturing competitiveness and economic resiliency by improving companies' access to *and* production of essential goods. Reforms should go beyond simple tariff relief and instead focus on making it easier for businesses to locate and invest in the United States.

Congress also should consider other "horizontal" economic reforms that would boost U.S. manufacturing competitiveness. Most notably, the federal government should significantly expand high-skill immigration, past U.S. restrictions of which have been shown to encourage multinational corporations to offshore jobs and R&D activities to affiliates in more welcoming countries *and* to benefit potential U.S. adversaries, especially China, in terms of new jobs, new businesses, and new innovations. The government should also further lighten corporate tax and regulatory burdens to encourage innovation and foreign investment and to ensure that businesses already here can remain globally competitive. This includes expanding and making permanent the 2017 Tax Cuts and Jobs Act's temporary "full expensing" provision ("100 percent bonus depreciation"), which allows U.S. businesses to write off certain business investments immediately and fully.

In conclusion, both recent experience and scholarly research show that federal government attempts to subsidize "essential" industries or reshore supply chains carry significant risks, and that open markets can bolster U.S. resiliency and competitiveness by increasing access to critical goods, services, and workers, mitigating the impact of domestic shocks, boosting economic growth, and facilitating rapid, market-based adjustment in times of severe economic uncertainty. This argues for a different approach to achieving real economic resiliency than the ones primarily under consideration today — an approach based not on economic nationalism or top-down planning but instead on the open and flexible policies that America does best.

Sincerely,

/s/

Scott Lincicome
Director, General Economics and Trade
Cato Institute

Ms. Kumar Response to Senator Hirono

Restaurant Revitalization Fund (RRF):

Last year Democrats passed the American Rescue Plan Act (P.L. 117-2), which created the Restaurant Revitalization Fund (RRF) to provide relief for foodservice and drinking establishments heavily impacted by the pandemic. You have highlighted how the program was underfunded:

QUESTION 1:

Can you speak further to how the RRF has supported your restaurant, restaurants in your community, and restaurants elsewhere? What kind of difference have RRF grants made to these businesses?

I am proud to own an independent restaurant that continues to survive this far into the pandemic. We have cut, crimped, changed, pivoted, closed, opened, closed again, opened again, pivoted again, did more takeout, served outside, did subscription meal kits and myriad other things to get to this point today. At Garland, we took both rounds of the Paycheck Protection Program (PPP) funding. We were closed for the first six weeks of the pandemic and the stoves were lit again, we did not do hot takeout because we have a small kitchen, and we didn't feel it was safe for cooks to be working in close proximity to each other (pre-vaccine). We did weekly cold prepared meal kits for our guests and for restaurant workers, but I wanted to make sure my team was safe.

Garland is a great example of stitching together all of the programs possible to get help. Between PPP and the RRF we have been able to pay people through the pandemic. We were able to stay open and continue to provide jobs. Although like my colleagues, I am struggling to deal with supply chain disruptions I have been able to navigate and absorb higher costs on most everything because I have received the RRF. But those who were not as fortunate are compounding their pandemic problems with supply chain issues. They are forced to dramatically increase their menu prices to cover the cost of ingredients, which puts them at risk of driving customers away at a time when they're desperately needed. My colleagues who did not receive the grant are saddled with enormous debt in the form of loans, second mortgages or losing their leases for which they have a personal guarantee. Indeed, they face a lifetime of economic devastation that will affect how they can provide for their families for decades to come.

Without the RRF, I am absolutely certain that my restaurant would be gone.

In a March survey of more than 1,000 members of the independent restaurant and bar community more than half of independent restaurants and bars without RRF grants anticipate they will close within six months.

The survey indicates that a significant number of businesses anticipate they will close within months if they do not receive an RRF grant:

- 24% of businesses that did not receive RRF are in danger of closing their business in up to 3 months compared to 13% of businesses that received grants.
- 28% of businesses that did not receive RRF are in danger of closing their business in 4 to 6 months compared to 11% of businesses that received grants.

RRF grants would help businesses address the issues threatening their longevity:

- 48% of restaurants without federal grants reported are in danger of defaulting on a loan compared to 22% of businesses that received RRF.
- 40% of restaurants without federal grants reported are in danger of filing for bankruptcy compared to 25% of businesses that received RRF.
- 28% of restaurants without federal grants reported are in danger of being evicted compared to 20% of businesses that received RRF.

Survey results show that RRF grants would afford businesses the flexibility to modify their operations, improve working conditions, and the overall dining experience:

- 83% of restaurants reported that a grant would allow them to increase their wages;
- 44% of restaurants reported that a grant would allow them to expand their menu;
- 51% of restaurants reported that a grant would allow them to expand outdoor dining options; and
- 91% of restaurants reported that a grant would allow them to withstand rising food costs without significantly increasing menu prices.

QUESTION 2:

What would additional funding mean for these businesses?

Thousands of businesses will close if the Congress does not replenish the Restaurant Revitalization Fund. After two years of missed rent, supplier and utility payments, navigating astronomical food costs, and multiple COVID-19 surges that brought businesses to a halt, independent restaurants and bars are out of time, options and money.

Receiving a Restaurant Revitalization Fund grant would secure the financial future of restaurants and bars, while giving owners the financial flexibility to become better employers. When I speak to my colleagues the top priority for their use of RRF funds is to raise wages, bring on more staff, and pay down any pandemic related expenses that continue to hang over their balance sheet.

The survey data also indicates that businesses would use RRF grants to pay down debts and make repairs, allowing restaurants to continue serving their communities:

- 86% of restaurants reported that a grant would allow them to be able to hire more staff;
- 77% of restaurants reported that a grant would allow them to pay their rent;
- 72% of restaurants reported that a grant would allow them to pay their utilities;
- 76% of restaurants reported that a grant would allow them to make supplier payments; and
- 77% of restaurants reported that a grant would allow them to make repairs.

Senate Committee on Small Business and Entrepreneurship Hearing
March 30, 2022
Follow-Up Questions for the Record

Question for Mr. Lam

Question from:

Senator Inhofe

Practical Solutions to the Supply Chain Crisis

Mr. Lam, last fall, I spoke with Allison Dickens, owner of Ludgers Bavarian Cakery in Tulsa, Oklahoma, about the staffing shortage her bakery was facing. Now, Ms. Dickens's primary concern is navigating the ever-changing environment brought about by the supply chain crisis. On a week to week basis, supplies are either running short, or prices have skyrocketed for basic goods like to-go containers. As a result, Ms. Dickens constantly has to evaluate whether to raise prices for consumers or wait for the issue at hand to subside. This is not a sustainable environment for businesses – much less small businesses – to operate in.

QUESTION 1:

Mr. Lam, as a restaurant owner, what practical changes can the Biden administration implement to help businesses navigate this environment and mitigate the impact of the supply chain crisis?

The most unequivocally simple answer is to stabilize the supply chain. Not necessarily to bring prices down to pre-Covid levels but to offer predictability in the market for goods and services. Chicken has risen further from $3/lb to $4/lb in the 2 months since my testimony. Prices fluctuate on a near daily basis for the most basic necessities and goods like napkins, chopsticks, bell peppers, and oil.

As far as possible solutions I can only offer my very limited knowledge and thoughts on what I believe could help.

1. Restart the EIDL and provide resources to the SBA to continue processing applications for low cost loans to businesses trying to survive. Maybe offer 0% interest in the first 2 years and stagger the repayment plan and increase the rate to 2% for years 3-4 and 4% for years 5-6.

2. Aid truckers through regulation and policy to obtain fair wages and safe work conditions that are already under examination by the Dept of Transportation and Dept of Labor in hopes of keeping our long haul and last mile truckers on the road to stock shelves in our stores and warehouses.

3. Temporarily increase domestic oil production to stymie the increase of gas price increases to ease the strain on logistics companies that are trying to distribute goods across the country.

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Questions for Dr. Sridhar Kota

Questions from:

Senator Hirono

Leveraging existing federal programs and resources

The federal government has a variety of different programs and resources that promote small and medium-sized manufacturers in the United States, including the Small Business Administration's (SBA) recently announced Manufacturing Office, and the Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs:

QUESTION 1:

In addition to the Manufacturing Office and the SBIR/STTR programs, can you speak to other SBA programs and resources that promote small and medium-sized manufacturers?

As a hardware entrepreneur, founder, and CEO of FlexSys Inc., for over two decades, I benefitted immensely from various SBIR programs in maturing technologies I developed. SBA's PPP loans enabled FlexSys to stay afloat, without laying off employees, during the pandemic. I am very grateful for the timely help and for rapid processing of checks when we needed them the most.

Many other SBA programs are designed to meet the needs of small businesses (mostly service-oriented businesses) in general but are not targeted to cater to the needs of small manufacturers such as procurement of new manufacturing equipment or skilled workforce. Particularly, hardware start-ups face uphill battles to identify, let alone seek, help from the federal or state governments in scaling up promising technologies. To illustrate these gaps in federal programs, I would like to summarize my experience with a new startup company.

In response to Covid-19 challenges, in March 2020, I co-invented two new devices, Aerosolve Helmet and Aerosolve Tent, to treat Covid-19 patients, without using a ventilator, by providing oxygen through a nasal cannula while protecting health care workers (HCWs) from virus transmission. Simply put, these work as "PPE for the Patient" to protect people around the patient such as HCWs, family and friends. These devices were immediately adopted at the University of Michigan hospital (under an "innovative care protocol") where they took patients off ventilators and successfully treated them with Aerosolve devices. I received countless requests from hospitals around the country through 2020 until mid-2021. I approached a few established companies that were already in the PPE business, but none had the capacity to undertake manufacturing of a new product since they were all too busy making conventional PPE/face-shields/masks. Therefore, I founded a new company Inspire Rx LLC to start manufacturing Aerosolve Devices. I invested over $750,000 of my own funds to design, engineer, small-volume manufacture, test, and prepare & file FDA applications for Emergency Use Authorization. I could not get any support from the State or Federal government, but I kept going to do my part to combat the Covid crisis by treating patients non-invasively, protect health care workers and enable family members to visit patients. When I was running out of funds, I could not find any grant opportunities at SBA, and SBA loan options were not viable. SBA's 7(a) loans require business profits which Inspire Rx is too new to have, and SBA's microloans are capped at $50,000 with 10-14% interest rates so too small and too expensive.

Although the ability to save lives at the University of Michigan hospital was extremely rewarding, I was equally frustrated by my inability to scale the life-saving devices when we desperately needed them primarily due to (1) undue delays in the FDA review/approval process and (2) lack of funding opportunities. Even at this stage, more than two years into the pandemic, these devices are very valuable for future pandemic preparedness but, even for me who is very knowledgeable about federal government programs, it is impossible to find an appropriate government official who can help.

QUESTION 2:

What SBA programs and resources have been particularly helpful for these manufacturers?

Based on my over two decades entrepreneurial experience and for over a decade of manufacturing policy experience in DC, I believe the established (not start-ups) small and medium sized manufacturers (SMMs) could benefit from (a) SBA loan program (although the interest rate is almost twice the rate offered by a commercial bank) and (b) the SBIR program.

The creation of a new SBA Manufacturing Office is a very encouraging development. It can help SMMs in many meaningful ways including:

- Financial assistance (grants preferably or low-cost/forgivable loans) to purchase and upgrade equipment, especially Smart Manufacturing technologies and manufacturing process improvements
- Facilitating government (DoD and GSA) procurement
- Vouchers to hire semi-retired or retired engineering and business professionals
- Grants to offer apprenticeships as a pathway to full-time recruitment
- Research grants to help mature emerging technologies or adopt current technologies in collaboration with either the private sector, MEPs or local research institutions or universities.

Follow up

Federal programs to promote small and medium-sized manufacturers include the National Institute of Standards and Technology's (NIST) Manufacturing Extension Partnership (MEP)—

which promotes national and regional collaboration and coordination between these manufacturers.

Early in the pandemic, for example, Hawaii manufacturers used the NIST-MEP network to develop new products to meet the growing demand for Personal Protective Equipment (PPE). More recently, they have used the network to find alternative sources for raw materials they use in their products:

QUESTION 3:

How important are federal programs like NIST-MEP that promote collaboration and coordination between small and medium-sized manufacturers?

There are numerous success stories like the one you cited in MEP's reports. However, MEPs in general are less impactful than what the federal government believes. Some MEPs are very effective in addressing the changing needs of small manufacturers such as the Hawaii MEP example. However, most MEPs still engage in training lean manufacturing and quality improvement methods (ISO 9000) of the late 90s and are not equipped to offer training in Industry 4.0/Smart Manufacturing methods or cybersecurity challenges. This is partly due to their limited capacity and capabilities. Although the MEP program was created over 30 years ago, the macro impacts have not been what was envisioned then—there are roughly 100,000 fewer SMMs today than 30 years ago—despite numerous individual company successes. MEPs across the 50 states have only engaged with less than 10% of all SMMs to date. MEPs tend to work with the same set of SMMs (usually larger companies with over 100 employees) year after year because they provide a more assured flow of client fees which are required by the MEP funding model. Furthermore, a relatively small number of MEPs in states with the highest number of manufacturers tend to generate the bulk of reported impacts.

Rather than simply doing more of the same or simply spending more on the same programs, it is critical that the federal government defines and implements proper metrics for success. Although MEP has an elaborate set of performance metrics and a survey process designed to solicit impacts directly from MEP customers, there often is a disconnect between reported impacts and the long-term performance of those SMMs. As additional resources become available through the America Competes Act (when it passes), MEPs should upgrade their skill sets to educate small manufacturers on Smart Manufacturing processes, empower them by implementing pilot projects to demonstrate its benefits, engage with private sector vendors, provide financial assistance to upgrade their equipment thereby enabling small manufacturers to be globally competitive. For this to happen, Congress needs to define the expectations clearly and hold MEPs accountable.

Questions from:

Senator Coons

U.S. manufacturers must offer a compelling value proposition to compete globally. Smart manufacturing technologies have the potential to help domestic manufacturers be more productive adaptable. Yet adoption of smart manufacturing technologies has been slow, especially among small manufacturers.

QUESTION 1:

What do you see as the main obstacles that are holding back small manufacturers from adopting smart manufacturing technologies?

Through MForesight, my colleague Tom Mahoney and I studied this topic, interviewed numerous SMMs in 2019, researched available technologies, vendors, and success stories. We published a "primer for SMMs" [1]on challenges, opportunities, and resources for implementing Smart Manufacturing. In short, the main obstacles that small manufacturers face are:

1. Lack of motivation – unless their customer demands, SMMs simply do not have the resources to invest in Smart Manufacturing technologies
2. Lack of expertise and availability of expertise

The federal government has an important role to play to ensure that small manufacturers, the backbone of our manufacturing sector, are globally competitive. Governments in other advanced nations (Germany, Taiwan etc.) have been providing significant support to small manufacturers for upgrading equipment installations, etc. Since small manufactures are severely constrained in their resources, the federal government should provide vouchers directly to them to seek expertise and procure smart manufacturing equipment (hardware and associated software installation).

In your testimony, you stated the U.S. must strengthen the technical know-how of our workforce to grow domestic manufacturing. A recent survey of Delaware employers revealed they are struggling to fill open positions. Some of these jobs require college degrees, but many good-paying jobs do not. One possible solution is to increase the availability of apprenticeships to young people from a diversity of backgrounds.

QUESTION 2:

What role can you see apprenticeship programs playing in the development of our manufacturing workforce?

[1] Thomas C. Mahoney and Sridhar Kota, "Smart Manufacturing: A Primer for Small Manufacturers", MForesight: Alliance for Manufacturing Foresight, March 2020.

It is true that many good-paying jobs do not require a college degree and more so in the manufacturing sector which also provides many opportunities for growth and upward movement for those who continue to learn new skills. But to get students interested in pursuing a career (with or without a college degree) in manufacturing, they need to be made aware of the opportunities and more importantly they need to be inspired by the sophisticated manufacturing processes and equipment. That initial exposure at an early age is critical. For that, the first (and the forgotten) step is the require all high schools to offer a Shop Class and make it required for all students. This might seem like an overly burdensome government mandate, but it is important to remind ourselves that many high schools students dissect a frog but not all of them end up pursuing career in biology and that has been ok for decades. Likewise, it is ok to require all students to take a shop class whether they decide to pursue a career in engineering or manufacturing. It is important to expose students to various options so they can pursue what inspires them rather than the default 4-yr college as the only viable option.

Additionally, it is critical to educate high school counsellors about the benefits of real-world exposure through apprenticeships for college-bound and non-college bound students.

Internship at a local manufacturing plant is an excellent way to expose young minds to various facets of manufacturing – from design and creativity to sophisticated manufacturing equipment, products, quality, logistics, automation, business management, etc. However, the federal government should not administer or coordinate any internship programs directly or through academic or government institutions because doing so would be ineffective and lack relevance to the real world. Instead, the federal government should provide incentives (tax incentives) to manufacturers of all sizes (much more so for SMMs) for offering and scaling internship opportunities to high school students and others who are interested. Note that internships are not charity programs for the private sector – instead they are the most effective recruitment opportunities for the participating firms of any size.

To its credit, the federal government has invested and continues to invest in community colleges. While they do provide valuable employable skills in some cases, they cannot solve the multi-dimensional challenges we face in worker shortage or skills shortage at multiple levels. Doubling down on the same program will not necessarily change the outcome. After admiring German polytechnic education for decades, it is time for the federal government to act. Government should invest in standing up 4-year polytechnic universities in every state since they offer balanced education and training across multiple disciplines including engineering/manufacturing, health care, information technology, digital arts, etc. Polytechnic universities provide a good balance of theory and practice – much like medical school education. Traditional 4-year colleges emphasize theory and most take pride in their capacity to train students to be researchers or professors at the expense of bridging the gap between theory and practice. At the other end of the spectrum, community colleges provide highly specialized skills (such as operating a CNC machine or welding) but are not designed to provide a broader or a deeper understanding of the subject matter. Besides, society places a much higher value on a 4-year degree – rightly or wrongly. There are a few excellent polytechnic universities around the country that are completely ignored in the popular, academic, or political press. Government has an important role in strengthening and scaling the best programs in polytechnic education if we are serious about rekindling American ingenuity.

Questions from:

Senator Young

Right now, I know that all levels of government are focused on a top-down review of the supply chain, but we are in need of something more permanent, comprehensive, and easily accessible.

I believe aggregated demand mapping for critical industries will open the door for supply chain visibility. Specifically, my proposal, which was included in the Trade Title of the U.S. Innovation and Competition Act, would establish an online toolkit and database within the Department of Commerce to support a supply chain mapping effort.

QUESTION 1:

With this in mind, what value do you see in creating a comprehensive understanding of our supply chain vulnerabilities for the manufacturing sector?

I applaud your proposal to review supply chain challenges in a "comprehensive and permanent" manner. This is critical. Since your office is focused on this important issue and plans to address it in a comprehensive and permanent manner, I would like to share my opinion with the hope that your office will go beyond creating a comprehensive understanding and act on its findings with urgency.

First, I must also note that there have been other supply chain review reports published in the recent past including 2012 Senate Armed Services Committee Report and 2018 on DoD Supply Chain vulnerabilities. While each of these reports have meticulously identified the gaps and challenges the situation only continued to get worse. We have been admiring the problem for much too long. Besides, at least in the context of vulnerabilities in the defense sector, which are too many, government should place the burden on its defense contractors to ensure that all components are made in the U.S. If a private sector customer placed such a burden, the supplier would simply comply to procure the purchase order, but somehow the government customer has been unable or unwilling or afraid to place that burden and define metrics that are in the best interest of taxpayers who are footing the bill. The private sector and major defense contractors in particular are equipped with ample resources and expertise to ensure complete visibility of their supply chains and enforce Made in USA principles if the customer demands it.

To prevent future supply chain challenges on products critical to defense or health or energy, the government should consider the following:

1. For non-defense related products, if the product cannot be produced domestically, the federal government should consider and facilitate near-shoring to any number of friendly countries south of our border rather than importing from across the oceans.
2. Congress should require that, for any product or process derived from federally funded R&D, at least 75% of the value added must be produced in the United States. This is the same standard established for automobile production in the United States-Mexico-Canada Agreement. The only exception to this requirement would be a temporary waiver for up

to one year due to a demonstrated on-going national emergency. Such a waiver, an Emergency Manufacturing Authorization (EMA), will be issued by the White House or Congress during an emergency (like the Emergency Use Authorizations issued by the FDA during the Covid-19 pandemic). This is the only way to ensure a real return on investment back to American taxpayers who funded the research in the first place. This helps stop the bleeding of emerging technologies developed with American taxpayer dollars only to be scaled in other countries, which has been the norm for nearly three decades.

Senate Committee on Small Business and Entrepreneurship Hearing
March 30, 2022
Follow-Up Questions for the Record

Question for Mr. Griffith

Questions from:

Senator Risch

Inefficiencies at U.S. ports is one of the main causes of the supply chain crisis with maritime labor unions deliberately blocking modernization efforts at ports. The upcoming contract negotiations are about to begin between the Pacific Maritime Association and the International Longshore and Warehouse Union where we could again see maritime labor unions using "slowdown" negotiating tactics instead of striking like they did during the 2014 negotiations.

Mr. Griffith, these types of tactics cause substantial losses for local businesses importing and exporting goods while worsening our nation's supply chain crisis. For an Idaho exporter, every additional day their goods are stuck in port costs them thousands of dollars. To address this issue, I recently introduced the Preventing Labor Union Slowdowns (PLUS) Act to protect our national supply chain. The PLUS Act would change the National Labor Relations Act to define a labor slowdown by maritime unions as an unfair labor practice. The bill also makes it an unfair labor practice for labor unions to block modernization efforts at ports and specifies that refusing to work automated vessels is an unfair labor practice.

QUESTION 1:

Could you elaborate on the impact that additional labor union slowdowns at U.S. ports would have on the national supply chain crisis?

Answer:
The crisis at the California ports demonstrates how further port slowdowns will exacerbate supply chain issues. The Ports of Los Angeles and Long Beach handle 40 percent of containers that bring goods and parts into American homes and factories. The exclusively unionized workers at those ports earn upwards of $200,000 per year in compensation.[1] With such high labor costs (roughly three times the national average for port workers) and the union's unwillingness to operate on a 24/7 schedule similar to all other major ports in the world, it would make sense to increase automation, but the union has fought hard against that—including securing a provision in the bipartisan infrastructure package to prevent any funds from going

[1] Los Angeles Times, "L.A. City Employee Salaries Database," Harbor, http://projects.latimes.com/la-city-salaries/department/harbor/

toward automation.[2] Consequently, in the World Bank efficiency rankings,[3] the California ports were among the least efficient on earth—behind even those of Mombasa, Kenya, and Dar es Salaam, Tanzania.

QUESTION 2:

How have labor union efforts to prevent modernization upgrades at U.S. ports affected our nation's supply chain?

Answer:
Labor union efforts to prevent modernization at U.S. ports results in higher prices and shortages. Prices are higher largely because the system relies more on labor rather than automation. But shortages and delays of goods may also develop as the capacity of these ports is artificially constrained by inefficient processes. This can create a ripple effect across the entire economy as raw materials and other inputs for manufacturing and constructions businesses are delayed.

Questions from

Senator Inhofe

Impact of Regulations

Mr. Griffith, this administration's regulatory agenda has harmed our economy and small businesses everywhere. We see this most prominently as it relates to fossil energy development, and Americans are paying the price with record high gas prices. Keep in mind – President Biden has cancelled Keystone XL pipeline, paused permitting for new drilling on federal lands, and sought new taxes for the oil and gas sector. And shockingly, this Administration blames everyone but themselves for the oil and gas supply disruption we're facing when they should be looking squarely in the mirror.

QUESTION 1:

Mr. Griffith, how does the Biden administration's energy regulatory agenda affect industries across our economy?

Answer:
Amid enormous shifts in energy supply and demand since the pandemic, government policies have consistently pushed prices yet higher. Energy is essential to nearly every good and service—schools, hospitals, grocery stores, manufacturing, small businesses—that Americans

[2] Eric Boehm, "America's Ports Need More Robots, but the $1 Trillion Infrastructure Bill Won't Fund Automation," Reason, November 9, 2021, https://reason.com/2021/11/09/americas-ports-need-more-robots-but-the-1-trillion-infrastructure-bill-wont-fund-port-automation/

[3] "The World Bank and IHS Markit Container Port Performance Index 2020 Report," World Bank Group and IHIS Markit, (2021), https://ihsmarkit.com /Info/0521/container-port-performance-index-2020.html

engage in. It is critical to Americans' economic opportunity and ability to live healthier, safer, and more productive lives. When energy prices increase, therefore, it directly hurts Americans.

Crude oil is refined into petroleum products such as gasoline, jet fuel, and petrochemicals. Natural gas is used for both heat and electricity and is a critical raw material for thousands of industrial products such as fertilizer, plastics, and pharmaceuticals. Coal is used for heat and electricity as well as in industrial applications such as steel production, and it is an exceptionally affordable energy source.

The Biden Administration has proposed or finalized regulations restricting nearly every aspect of conventional energy: financing and private sector investment, exploration and production, pipeline construction and operation, and consumer use. Further, it has effectively banned leasing for coal, oil, and natural gas exploration and production on federal lands and the Outer Continental Shelf in defiance of the law. The Department of Interior also recently proposed sweeping policy changes to federal land management that would severely minimize if not effectively ban production of coal, oil, and natural gas on these lands and waters. Finally, the Administration continues to promote the Build Back Better Act, which would increase energy prices by adding new fees, royalty rates, and regulations on conventional energy producers and cut access to production off American coasts. A proposal in the bill setting a 15 percent minimum tax on businesses' book income would also have outsized negative impact on coal companies, cars and trucks, and utilities and could increase prices or skew future investment away from these industries.

QUESTION 2:

Does the administration's regulatory agenda worsen the supply chain crisis we're seeing?

Answer:
The administration's regulatory agenda worsens the supply chain crisis. The supply chain crisis has been exacerbated by this administration's "war on energy," including shuttering pipelines,[4] closing off swathes of the nation to drilling,[5] and even threatening oil executives with prison for providing the gasoline American business and families depend on.[6] Proposals for yet more government spending, labor regulations such as the PRO Act, harsh environmental regulations, and massive tax hikes on businesses risk further supply shocks.

[4] David Blackmon, "Why Biden's Killing Of Keystone XL Was An Energy Security Blunder," Forbes, March 10, 2022, https://www.forbes.com/sites/davidblackmon/2022/03/10/why-bidens-killing-of-keystone-xl-was-a-big-energy-blunder/?sh=13b0bf4f13fd (accessed March 29, 2022).

[5] Lisa Friedman, "Biden Administration Halts New Drilling in Legal Fight Over Climate Costs," *The New York Times*, February 22, 2022, https://www.nytimes.com/2022/02/20/climate/carbon-biden-drilling-climate.html (accessed March 29, 2022).

[6] Katelyn Caralle, "'We should put them in jail!' Joe Biden wants to prosecute fossil fuel executives for environmental damage—but doesn't mention son Hunter who helped run Ukrainian natural gas giant," *Daily Mail*, December 30, 2019, https://www.dailymail.co.uk/news/article-7837265/We-jail-Biden-wants-prosecute-fossil-fuel-executives-environment-damage.html (accessed March 29, 2022).

Questions from:

Senator Young

Small businesses are finally starting to claw their way back from the pandemic only to now face high fuel costs and runaway inflation.

QUESTION 1:

What would you suggest that this committee be focused on—as it relates to the SBA's jurisdiction—to empower businesses to find their solutions to risings costs without wasteful government spending?

Some of my colleagues have been tempted to offset inflation with subsidies. This implies having the federal government borrow even more money to help Americans pay for certain expenses, including gas, housing, childcare, etc. However, this approach threatens to impose a greater stagnation spiral.

Answer:
Rather than expand the SBA's involvement in the economy, Congress and the Biden administration should get the federal government out of the way by cutting red tape. Remove welfare work disincentives such as monthly child payments detached from work. End benefits policies that discourage work by the able-bodied. Government has caused these rising costs. Rather than counterproductive policies or attempts to advise businesses on how to operate, government should reduce red tape and cease perpetuation of these destructive fiscal and monetary policies.

In relation to proposals to expand SBA funding, it's a misnomer that credit markets are not providing funds to small businesses. Most small businesses are saying they are generally not looking for more credit.[7] Only three percent of respondents in a January 2022 National Federation of Independent Business (NFIB) survey reported their borrowing needs were not satisfied. Only 1 percent reported financing as their top business problem. The survey also reported, "Only a net 2 percent reported their last loan was harder to get than in previous attempts (up 1 point)."[8] In past economic crises, 37 percent have reported financing and interest rates as a top concern.

QUESTION 2:

Can you elaborate on why increasing poorly tailored social spending will likely continue to prop-up our supply chain disruptions?

[7] William C. Dunkelberg and Holly Wade, NFIB Small Business Economic Trends, NFIB Research Center, January 2022, https://assets.nfib.com/nfibcom/SBET-Jan-2022-Final.pdf (accessed February 8, 2022).
[8] Ibid.

Answer:

Government spending financed by the Federal Reserve stokes demand while doing nothing to increase the supply of goods and services. In fact, the current administration is suppressing supply with increased regulations. This combination of artificially increased demand with social spending combined with supply suppression yields both higher prices and disruptions. A tsunami of government spending contributed to the rise in demand—including future demand as households stockpiled income from both wages and government COVID-19 relief checks. Without a doubt, Federal Reserve policy is contributing to the very large burst of inflation. The federal government has used the Fed as a piggy-back, "selling" trillions in debt for newly 'printed' money that then floods into the economy, driving inflation.

Perhaps of utmost importance has been the labor shortage—a shortage contributing to supply chain disruptions. Primarily the result of so many dropping out of the labor market, the availability of workers is incredibly tight. Businesses across nearly every industry in the United States are desperate for workers and have expanded their pay and benefit packages. The number of unfilled jobs by November 2021 was at record levels, more than 1.5 jobs available for each of the unemployed (those looking for a job) workers.[9] The National Federation of Independent Business (NFIB) reported that 48 percent of business owners were unable to fill open positions—more than double the 22 percent historical average.[10] Accordingly, businesses are increasing compensation, and therefore their costs. According to NFIB, 44 percent of business owners reported raising compensation (a 48-year record high), and 32 percent plan to raise compensation in the next three months (a record high).[11]

The rising costs for businesses are largely a result of governments hampering the supply of goods and services, a tsunami of government spending contributed to the rise in demand—including future demand as households stockpiled income from both wages and government COVID-19 relief checks. Government has also disincentivized individuals from re-entering the workforce. Private businesses are attempting to remain solvent and grow despite these government errors.

QUESTION 3:

Furthermore, can you elaborate on why subsidies will merely create more inefficiencies in the production and delivery of these goods and services – especially for small businesses?

Recently, the Administration announced a new data-sharing pilot program called the Freight Logistics Optimization Works initiative—also known as FLOW—in order to speed up the movement of goods.

Answer:

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[9] News release, "Job Openings and Labor Turnover—November 2021," BLS, December 8, 2021, https://www.bls.gov/news.release/archives/jolts_01042022.pdf (accessed March 29, 2022).

[10] NFIB, "Labor Market Challenges Breaks 48-Year Record as Biggest Issue Impacting Small Businesses," November survey through November 29, 2021, https://assets.nfib.com/nfibcom/2021-Nov-Jobs-Report-FINAL.pdf (accessed date March 29 2022).

[11] Unfilled job openings total 11.3 million—more than 1.8 jobs for every unemployed worker.

Artificially stoking demand through subsidies—especially with a regulatory agenda that suppresses production-- is a recipe for both shortages and higher prices.

Housing is one important example. Government subsidies have increased borrowing and demand for housing without increasing supply, leading once again to higher home prices and increased taxpayer risk. Subsidies and government guarantees of MBSs will perpetuate inflated prices, deprive other sectors of needed financial resources, and place the burden of catastrophic risk on the federal taxpayer.

Subsidies for individuals in the form welfare-without-work policies—such as a 21 percent increase in Supplemental Nutrition Assistance Program (SNAP) benefits and vastly expanded Obamacare subsidies—disincentivize people from joining the labor force, exacerbating worker shortages and driving up costs while diminishing service.

State renewable energy mandates and subsidies through the tax code. These mandates and subsidies have forced out not only coal-powered generation but also existing nuclear-power reactors.[12]These policies seek to alter energy outcomes according to political preferences rather than grid reliability, affordability, and customer demand. Energy subsidies in the form of tax credits and direct payments implicitly raise barriers for other energy suppliers to compete, inject political boom-and-bust cycles into energy markets, and in the long run harm the industries they are intended to help.[13]

QUESTION 4:

Do you believe there are additional efforts the Administration (or Congress) can take to coincide with this effort?

Answer:
To Congress and the Biden administration should get the federal government out of the way by cutting red tape, by stepping away from massive tax-and-spending legislation that seeks to micromanage the economy, and by saying "no" to unions and activists who want to cripple our economy.[14]

- Repeal the Jones Act. The Jones Act drives up shipping costs, makes it more difficult to transport goods that are important to the food sector, and impedes access to affordable domestic energy. This is particularly noticeable in states such as California, where very

[12] Katie Tubb, "Diablo Canyon Shutdown Last Chapter for Clean Nuclear Power in California," Heritage Foundation Commentary, January 29, 2018, https://www.heritage.org/energy-economics/commentary/diablo-canyon-shutdown-last-chapter-clean-nuclear-power-california.
[13] Adam N. Michel, "Tax Extenders Are Bad Tax Policy," Heritage Foundation Issue Brief No. 4980, July 19, 2019, https://www.heritage.org/taxes/report /tax-extenders-are-bad-tax-policy.
[14] Peter St. Onge, "Why Biden's Infrastructure Bill Will Likely Only Worsen Supply Chain Crisis," The Heritage Foundation, November 17, 2021, https://www.heritage.org/budget-and-spending/commentary/why-bidens-infrastructure-bill-will-likely-only-worsen-supply-chain (accessed March 29, 2022).

limited pipeline infrastructure means California's gasoline must be transported from refineries to demand centers by way of expensive and artificially scarce ships and crews.

- Do not force workers into unions. Enable more flexible contract work by using a common law basis for independent contractor status. Abandon legislation and regulations that restrict work such as California's AB5 law and the similar federal PRO Act.
- Eliminate Section 232 tariffs on steel and aluminum imports. Eliminate tariffs on manufactured goods imports including cars, trucks, and parts. Eliminate Section 301 tariffs and antidumping and countervailing duties on chassis so truckers can raise capacity.

QUESTION 5:

How can the federal government sustain the urgency of promoting the kind of data-sharing that will accelerate responsiveness?

Answer:
Congress and the Biden administration should get the federal government out of the way by cutting red tape.

What's truly to blame for the lack of responsiveness? Federal and state policies, especially in California, are compounding global shipping problems.[15] For instance, in the midst of the pandemic and supply chain crisis, California continued a phase-out of older diesel trucks. Organized labor in California continued to resist modernization in favor of inefficient modes of operation while refusing to fully expand their hours to alleviate the backlog. With such high labor costs (roughly three times the national average for port workers) and the union's unwillingness to operate on a 24/7 schedule similar to all other major ports in the world, it would make sense to increase automation, but the union has fought hard against that—including securing a provision in the bipartisan infrastructure package to prevent any funds from going toward automation.[16]

After sitting up to weeks on boats, containers of goods can wait weeks longer for the select few trucks and truckers that California's environmental and labor laws allow into the state, only to be transported to California's border where the remaining 70 percent of trucks in the United States are free to come and transfer the goods across the rest of the country. All this adds time and hassle, backing up the supply chain further, and raising the costs of the goods themselves.[17]

Labor costs and bottlenecks could increase further if the Teamsters' Union President James P. Hoffa convinces the Biden Administration to change the definition of employee so that businesses

[15] Rachel Greszler, Joel Griffith, Elizabeth Hanke, Tori Smith, and Katie Tubb, "Inflation: Policymakers Should Stop Driving It and Start Fighting It," Special Report No. 252, The Heritage Foundation, January 20, 2022, https://www.heritage.org/sites/default/files/2022-02/SR252.pdf (accessed March 29, 2022).
[16] Eric Boehm, "America's Ports Need More Robots, but the $1 Trillion Infrastructure Bill Won't Fund Automation," Reason, November 9, 2021, https://reason.com/2021/11/09/americas-ports-need-more-robots-but-the-1-trillion-infrastructure-bill-wont-fund-port-automation/ (accessed March 29, 2022).
[17] Rachel Greszler, "California's 'Pro-Worker' Law Is Killing Jobs Left and Right," The Daily Signal, January 8, 2020, https://www.heritage.org/jobs-and-labor/commentary/californias-pro-worker-law-killing-jobs-left-and-right .

cannot hire independent truckers to transport their goods but must instead make do with the much smaller supply of expensive unionized truckers.

Long-standing government policies that limit how goods can be transported have exacerbated port delays, largely occurring at the adjacent Ports of Los Angeles and Long Beach. In particular, the Merchant Marine Act of 1920, commonly referred to as the Jones Act, mandates that any goods shipped by water between two points in the United States must be transported on a U.S.-built, U.S.-flagged vessel with a crew that is at least 75 percent American.[18] This law drives up shipping costs[19] on average by 270 percent[20] as this regulation excludes 99.8 percent of the world's shipping capacity from transport between states.[21][22] The sheer cost of interstate water transport due to the Jones Act often makes it more affordable to ship goods from Asia than between states. For example, in October 2021, millions of pounds of Alaskan seafood were being blocked from coming into the United States via Canada due to the Jones Act.[23]

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[18] Nicolas Loris, Brian Slattery, and Bryan Riley, "Sink the Jones Act: Restoring America's Competitive Advantage in Maritime-Related Industries," Heritage Foundation Backgrounder No. 2886, May 22, 2014, https://www.heritage.org/government-regulation/report/sink-the-jones-act-restoring-americas-competitive-advantage-maritime .

[19] Federal Reserve Bank of New York, "Report on the Competitiveness of Puerto Rico's Economy," June 29, 2012, https://www.newyorkfed.org/medialibrary/media/regional/PuertoRico/report.pdf (accessed December 9, 2021). For example, according to a Federal Reserve Bank of New York report, the cost of shipping a 20-foot container from the East Coast to Puerto Rico is about double the cost of shipping to nearby islands that are not subject to the Jones Act

[20] U.S. Department of Transportation, Maritime Administration, Comparison of U.S. and Foreign-Flag Operating Costs, September 2011, https://www.maritime.dot.gov/sites/marad.dot.gov/files/docs/resources/3651/comparisonofusandforeignflagoperatingcosts.pdf (accessed January 10, 2022), quoted in John Frittelli, "Shipping Under the Jones Act: Legislative and Regulatory Background," Congressional Research Service Report for Congress, updated November 21, 2019, https://crsreports.congress.gov/product/pdf/R/R45725 (accessed December 9, 2021). According to the Congressional Research Service, "A 2011 study by the U.S. Maritime Administration (MARAD) found that in 2010, the average operating cost of a U.S.-flag ship was 2.7 times greater than a foreign-flag ship, but MARAD estimates that this cost differential has since increased."

[21] InfoMaritime, "World Merchant Fleet and Top 15 Shipowning Countries (2021*) Data," August, 22, 2021, http://infomaritime.eu/index.php/2021/08/22/top-15-shipowning-countries/ (accessed December 13, 2021).

[22] Colin Grabow, "The Progressive Case for Jones Act Reform," Cato Institute, September 7, 2021, https://www.cato.org/study/progressive-case-jones-act-reform#failed-law (accessed December 10, 2021). The cost of a U.S.-built ship is "four to five times more costly than those constructed abroad," according to Colin Grabow, policy analyst at the Cato Institute, and "the shipyards that build these vessels are so uncompetitive that few commercial ships are actually built."

[23] Editorial, "A Jones Act Fish Story, Chapter 2," *Wall Street Journal*, October 3, 2021, https://www.wsj.com/articles/a-jones-act-fish-story-chapter-two-alaska-shipping-bayside-canada-11633030744 (accessed December 7, 2021).