

Preserving Region-Loyal Production in Globalizing Markets: The US Manufacturing Crisis & Some Prescriptions for Addressing It

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The Third Big Hit to Mfg Jobs

Thousands of US Mfg Jobs

Mfg Job Loss

1978	20505	
1979	21040	
1980	20285	
1981	20170	-2073
1982	18780	
1983	18432	
1984	19372	
1985	19248	+959
1986	18947	
1987	18999	
1988	19314	
1989	19391	-1316
1990	19076	
1991	18406	
1992	18104	
1993	18075	+730
1994	18321	
1995	18524	
1996	18495	
1997	18675	-2554
1998	18805	
1999	18499	
2000	18372	
2001	17062	
2002	16454	
4/03p	16251	

Source: BLS

Exposing Economists' Ease

- Many economists attribute manufacturing job loss to rising productivity.
- But they admit that US manufacturing output has been flat since 2000, despite the recovery in the economy that began in late 2001.
- For that, they blame the strong dollar, but note that its value is now coming down.
- But since 2000, the domestic output erosion is almost exactly equal to the increase in the bilateral deficit with China, whose currency is tied to the dollar.

Is Manufacturing Job Loss Due to Productivity Growth?

1. It's Hard to Tell; 2. Clearly Not Just

Q. What Happens When US Manufacturers Buy Cheaper Inputs from Offshore?



$$\frac{VA}{FTE} = \frac{\text{Sales} - \text{Outside Purchases}}{\text{Employees} \times \text{Hours} / 2080}$$

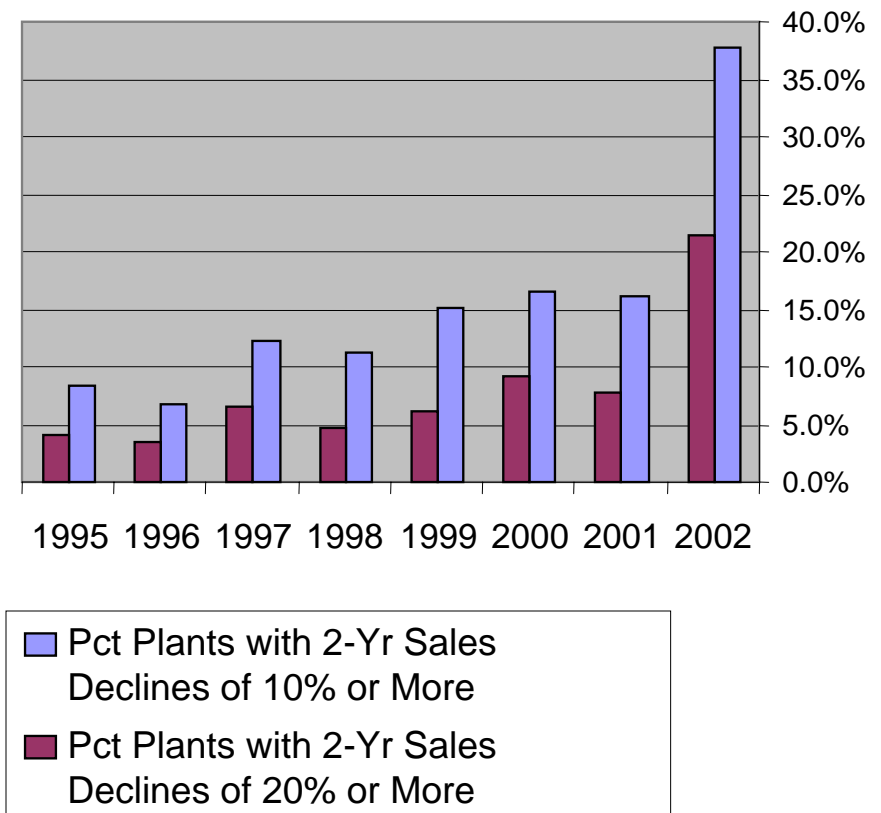
A. When purchased input costs go down, the NUMERATOR grows, making the RATIO rise.

But ... remember that Sales = Price x Units, and price is falling for most US manufacturers.

Exceptional Sales Declines

- **38% of MMTC benchmarking participants $\geq 10\%$ sales decline over 1999-2001, *more than twice* the level of previous years.**
- **22% reported declines of $>20\%$, *three times* the level of the previous period.**
- **Declines are broad, in all sectors, states, & size classes.**
- **Initial returns show no 2000-2002 at least as bad as 1999-2001.**

MMTC Benchmarking Participants Experiencing Significant Sales Declines



Closing Down, Moving Out

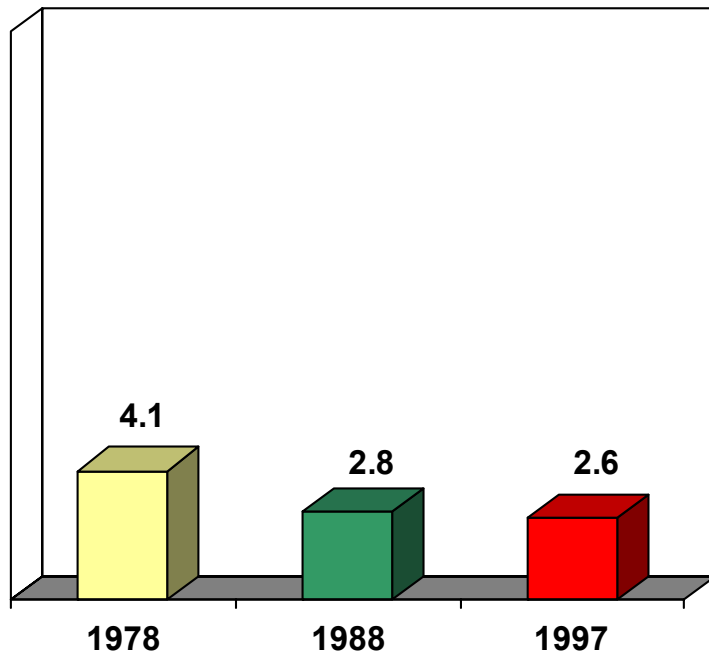
- Proportion of firms with sales (and not just employment) reductions in the last two years corroborates data showing output is falling.
- “Stimulus” is not the obvious prescription, given the 30% offshore leakage of demand for manufactured products.
- Number of firms relocating or losing work abroad in the last two years is striking, though still anecdotal.
- Dive in the dollar will help, except with China, but much of the aggregate loss may be irreversible.
- Time to fix things may be running short.

The Political Opportunity

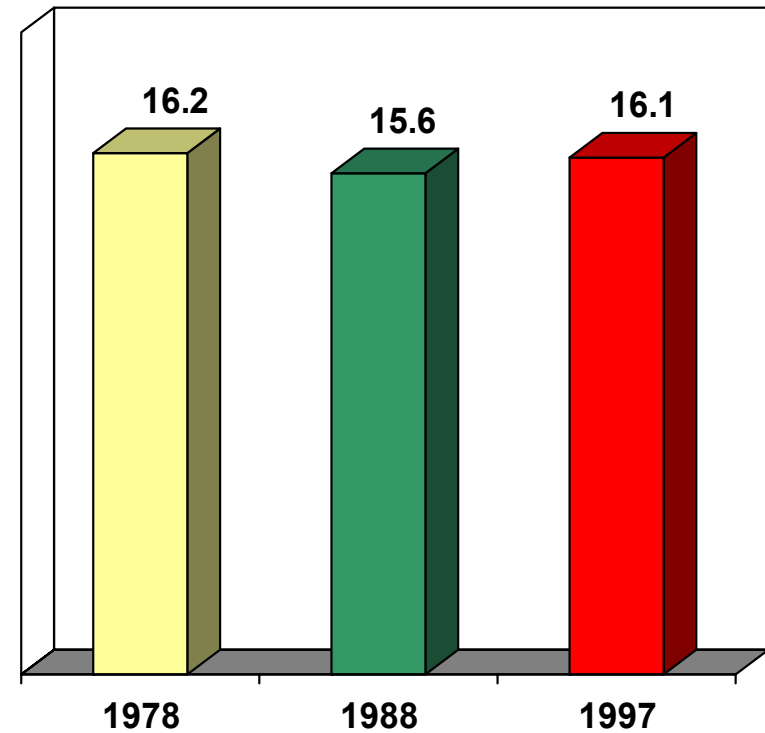
- The spreading reach of the problem widens the potential base for a solution.
- Within firms, this is a *tipping-point moment* for strategy, with medium-term irreversibility of choices now being made.
- That makes this a time when policy, whatever its limits, could matter a lot.
 - Federal: Mfg's profile up, but proposed Rx's feeble
 - States: Too dazed by deficits to focus on mfg
- *But first, some history (hint: Halle Berry's soliloquy in Bulworth was dead on) ...*

Until 2000, “Deindustrialization” Was Concentrated in the Cities.

Mfg. Jobs, 1997 vs. 1988 vs. 1978



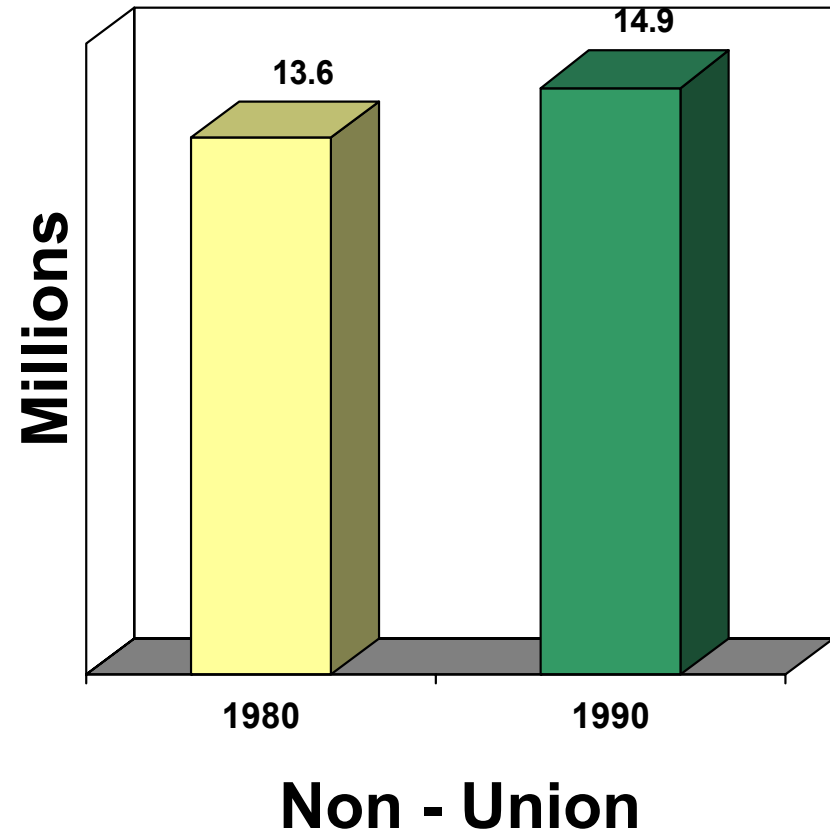
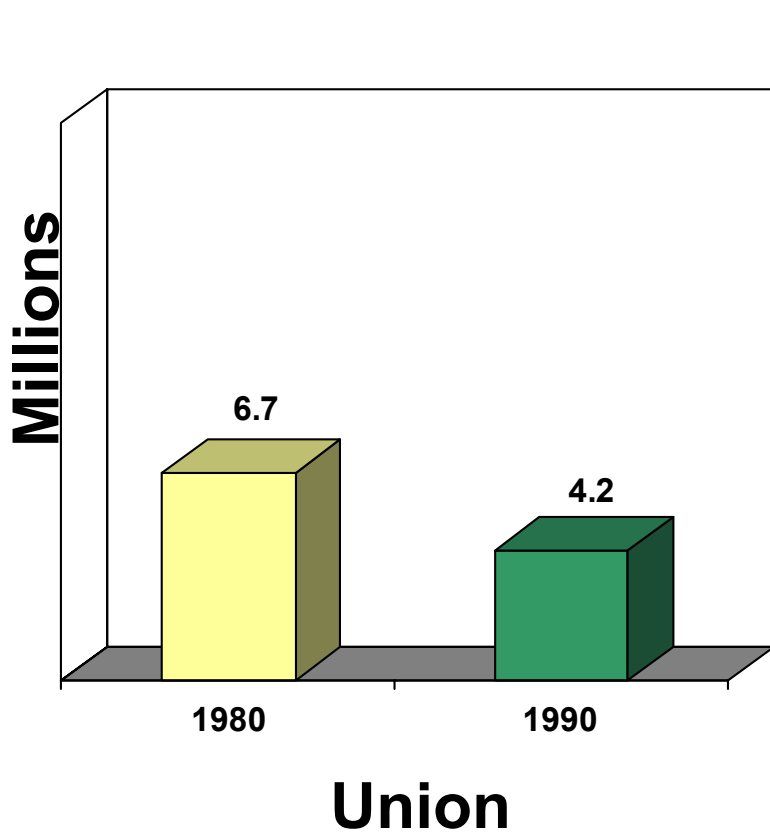
17 Central Cities



Rest of U.S.

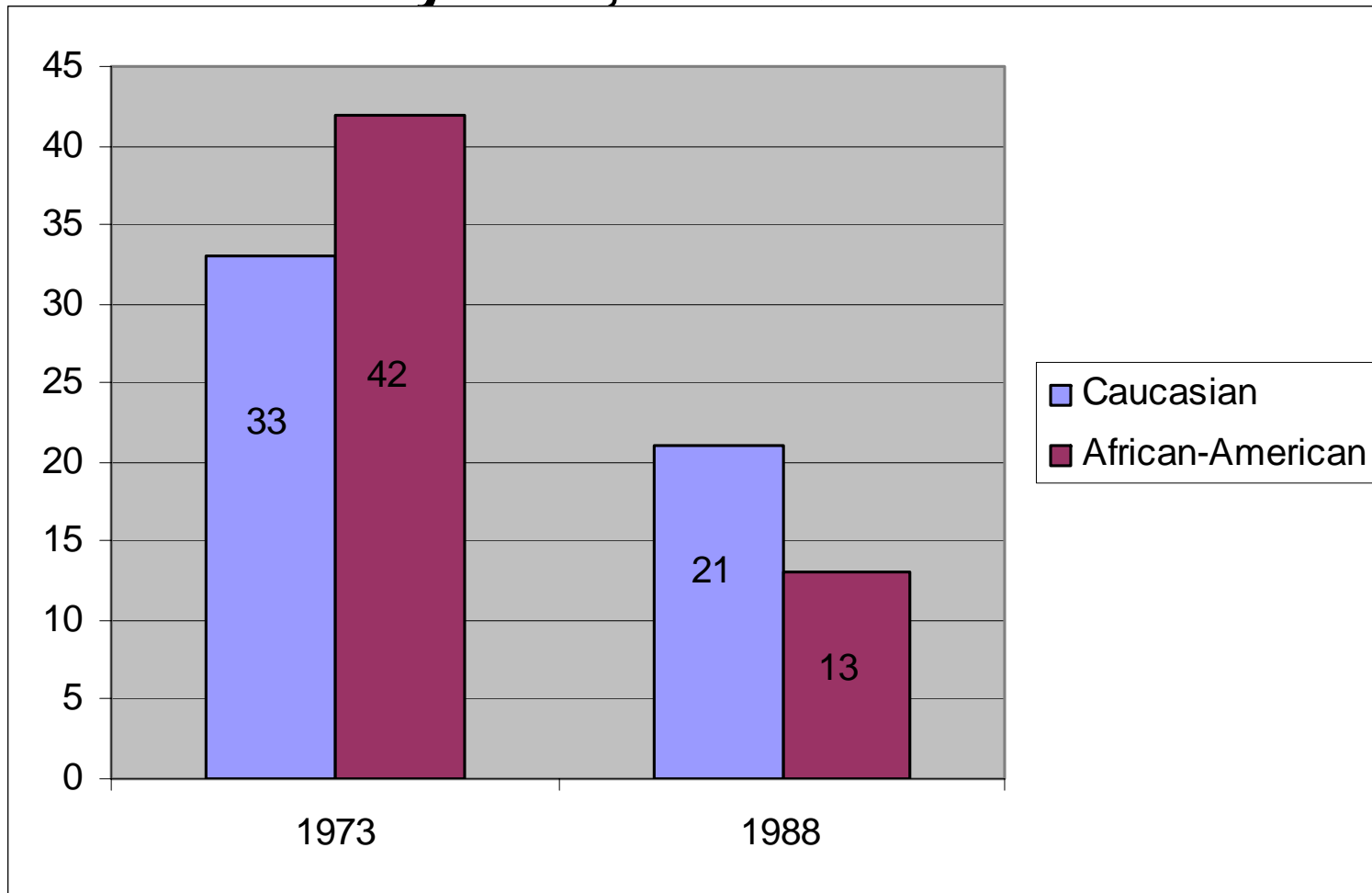
This Devastated Industrial Unions...

Mfg. Jobs, 1990 vs. 1980



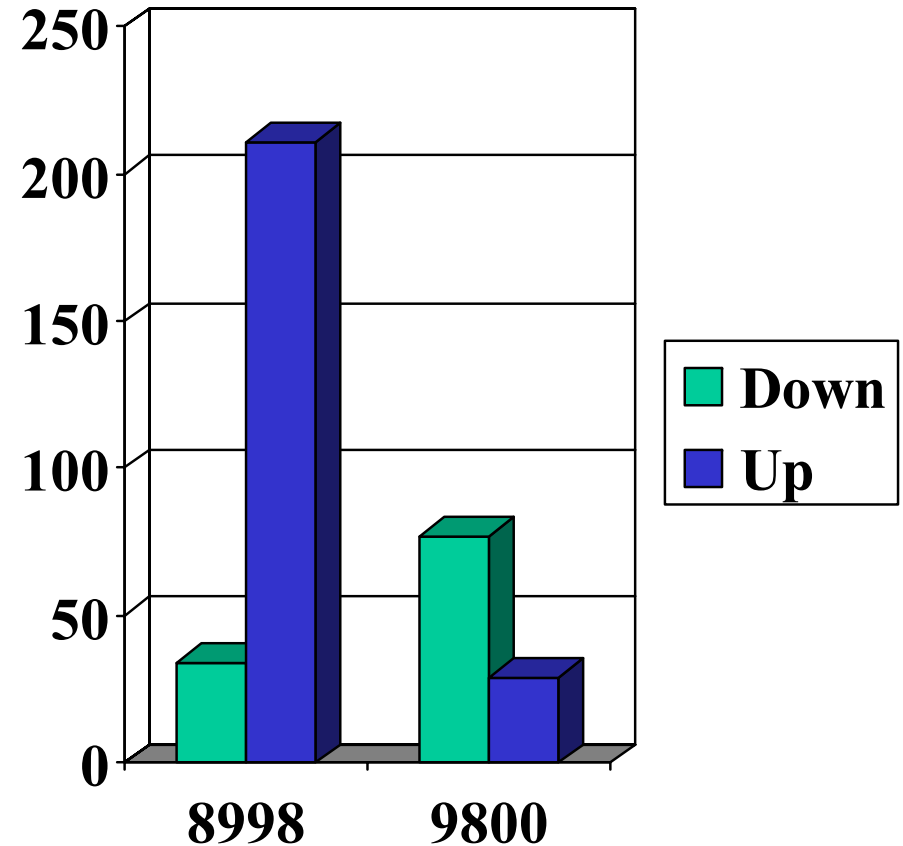
... and the Black Working Class.

**Percent of Midwest Males Ages 18-54 Employed
in Durable Goods Manufacturing,
by Race, 1973 & 1988**



But This Time, the Pain Has Spread.

- 1979-88: Some Cong. Districts (CDs) with large declines, but most CDs *gained* plants and jobs
- 1989-98 : 34 down $\geq 10\%$; 211 up
- 1998-2000: 77 CDs down $\geq 10\%$; only 29 up (and the rest are nervous)
- ... and 2001 and 2002 *much worse than 2000.*



Few States Exempt Now

- More manufacturing plants in 2000 than in 1998 – 5 states (DE, ID, MT, ND, WY), totaling 6 CDs
- States with no CD with more plants – 12 (AK, CT, DC, IA, KY, LA, NJ, OK, RI, TN, VT, WV), totaling 59 CDs
- States with at least 3 times more CDs down than up – 20 (AL, AR, AZ, CO, FL, IL, KS, MA, MI, MN, MO, MS, NC, NY, OH, OR, PA, TX, VA, WA), totaling 255 CDs

Implication: There has to be a large and growing group of key members with big mfg declines in their districts.

Response So Far: Welcome, Uncoordinated, Non-Strategic

- Collins – Reed – Snowe – Lieberman – Quinn (NEMW): training, R&D credit, fund MEP, health care reform
- **NAM: It's a "crisis"**
- NACFAM *Smart Prosperity* Agenda: fund MEP, expense equipment
- **Bills establishing a USDOC Undersec'y for Mfg**
- States – not much yet



Thinking More Clearly

- **Why we really care about manufacturing**
- **How we think about the recipes companies choose**
- **How we analyze and support sectors and firms**

Hint:

Treating manufacturing as a “big tent” obscures what’s really going on:

- 1. Winners & losers from “globalization”**
- 2. Sleazeballs & heroes here at home**

Why We Care About Manufacturing

- 1. Making stuff that people want is an economic good in itself, and key to supporting high-end services.**
- 2. The loss of good-paying jobs for non-four-year-college-educated Americans is a continuing disaster for cities, blacks, immigrants, and the rural poor alike.**
- 3. There are huge new opportunities we're not reaching, e.g., in energy efficiency, transportation, etc.**
- 4. It's hard to see how to get out of foreign debt (now rising to 40 percent of GDP) without something to sell to the outside world.**
- 5. Whatever one's views on foreign policy, it's hard to have one without some manufacturing autonomy.**

Two, Three, Many *Manufacturings*

- **Analysis:** Manufacturing is not an undifferentiated mass, but a group of sectors, and within those sectors manufacturing strategies are not convergent.
- **Constraints:**
 - Low-road options persist. Many mfg advocates vigorously promote them.
 - The high road is poorly “paved.”
 - Multinationals have different interests than the typically smaller, more US- and region-loyal suppliers on which they depend.
 - Macro policy initiatives (e.g., tax expenditures) are usually meat-axe and waste revenue.
 - Congress is distracted by war-making and tax-cutting.
 - States are preoccupied with budget-cutting.

Knowing a High-Road Manufacturer When You See One

- **A true SME, not a branch plant of a large firm**
- **Involved in complex processing, not just assembly**
- **Looking to innovate so it can earn a monopoly rent**
- **Has been around a while, and would like to stay around**
- **Personal ties to region and community**
- **Pays well, invests in new equipment, trains its workers, is well-managed**
- **Pays its taxes, and obeys laws, regulations, and community standards**
- **Feels increasingly abused by its once-loyal customers**
- **Alarmed about whether manufacturing has a future here**
- **Is losing orders to low-wage shops at home as well as offshore (“China”)**

But Such Firms Are a Dwindling Minority.

That's precisely what needs to change!

- *We need to know what firms need to get on the high road, sector by sector and region by region.*
- *We need to close off the low road, starting by ending subsidies to those driving on it.*
- *We need federal and state policy that encourages high-road manufacturing by:*
 - **Setting the right macro terms**
 - **Seeding the sectoral and regional infrastructure that advantages their survival and growth**
 - **Shifting resources from all business to high-road business**

The Proposed Project

- Complete the Analysis, Dominate the Data Contest
- Build Consensus Through Communication
- Feed the Federal & State Policy Pipeline
- Address Self-Defeating “Least-Common-Denominatorism” in the Private Sector
- Model Impact with Focused Demonstration Projects
- Leverage Foundations’ Past Investments to Make a Real Difference

Pieces of the Puzzle

- **Nail the remaining research questions**
 - True US manufacturing productivity change, overall and by sector and size
 - True distributions of performance, overall and by sector and size
- **Arm the public policy community**
 - 3-5 core federal policy initiatives that key Members and staff can get passed
 - 3-5 core state policy initiatives that key Governors, legislators, and staff can get passed and that are revenue-neutral or better
- **Invent & sell the “private policy”** – a viable agenda for industry associations refocused on their high-road members’ needs
- **Demonstrate results** – federal and regional demonstration projects to pilot promising initiatives

Remaining Research Questions

- What's really happening to *manufacturing productivity*, when both input and output prices are understood?
- What part of *manufacturing job loss* is due to productivity versus falling domestic value-added?
- What part of the change in domestic value-added is due to the *behavior of US-based MNCs*?
- What is the true *distribution* of productivity and job quality across industries, firm sizes, and regions?

The Federal Fix

(Not the Key, but Not to Be Ignored)

- Important to note, but hard to accept for Congress, most effective “national” industrial policies are more regional than national in focus.
- There are things to be done about pay standards, exchange rates, health insurance, & tax incentives, etc., but they are neither sufficient nor most important. Washington can help most by stopping its tilt in the wrong direction.
- Rx: Intelligent federalism in effort, and capacity close to the firms and regions.
- Hardly a new issue in American public policy, and in some ways we’re ahead of the game. We can leapfrog best practice elsewhere.

Helpful *Tilts* from Washington

Away from deregulation and sprawl subsidies ...

Toward stricter standards:

- High-road manufacturers pay more and pollute less, so a higher minimum wage and stricter environmental standards are cheap for them but expensive for their low-road competitors.

Toward rewards for onshore innovation & investment:

- Reserve tax expenditures (R&D credit, ITC) for fully onshore producers' onshore investments

The State Fix

- More support for direct service to high-road manufacturers, e.g., a better-funded, but more focused, NIST MEP
- Training grants and/or credits tied to job quality, e.g., reserved for companies with shop wage $\geq 2 * \text{federal minimum wage}$
- Steer State contracts away from low-road firms via “good citizen” programs; e.g., no state contracts to firms not offering health insurance
- Address health insurance costs by encouraging large purchasing pools, including by lining up unions to offer coverage to employers agreeing not to fight unionization

“Private Policy”

- “Tyranny of the majority” in industry associations: bad firms’ loud voice
- Survival fears may mean a moment for better owner-managers to represent their firms’ true interests better
- Two proposed tests:
 - Confronting key associations
 - Building a cross-association council of high-road manufacturing owner-managers

Demonstration Projects

- Federal Policy: crafting & guiding a multi-state experiment in “beating China” through productivity
- State Policy: crafting a revenue-positive revision in tax-expenditures & health-care purchasing
- Private Policy: launching & promoting a high-road capitalists’ council