

# It's time to save the golden goose

#6 in a series



*“We need a strategy to strengthen manufacturing across a wide range of industries and product areas not just in the newest green technologies.”*

— *New America Foundation*



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# America Needs a Manufacturing Strategy

In President Obama's meeting with Senate Democrats today, Senator Sherrod Brown (OH) pressed the president on why the United States does not have a manufacturing policy. Senator Brown was right to raise the question.

***First, manufacturing is critical to the economy.***

***Largest multiplier.*** Manufacturing has the largest multiplier of all sectors of the economy. Every dollar in final sales in manufacturing products supports \$1.37 in other sectors of the economy. By contrast, the financial services sector generates only about 50 cents for every dollar of activity.

***Productivity powerhouse.*** Manufacturing productivity consistently outpaces productivity growth in other sectors of the economy. Between 1997 and 2005, multifactor labor productivity in manufacturing grew at an average rate of 4.6 percent per year. This was 60 percent greater than in the private, non-farm economy as a whole.

***Good wages and benefits.*** Today's manufacturing employees earn higher wages and receive more generous benefits than other working Americans. On average, manufacturing employees earn 23 percent more than workers in other parts of the economy.

***Diversified employment.*** Manufacturing employs workers at all skill and education levels. For non-college educated workers, manufacturing is a crucial source of good, often highly skilled jobs that pay above average wages. On average, non-college educated manufacturing workers

made \$1.38 per hour (or 9.2 percent) more than similar workers in the rest of the economy in 2006-07. Thus, manufacturing helps to reduce income inequality.

***Source of innovation.*** The manufacturing sector is of vital importance in maintaining our innovative capacity. Manufacturers are responsible for more than 70 percent of all business R&D, which ultimately benefits other manufacturing and non-manufacturing activity.

***Key to an improved trade balance.*** An increase in the production of manufactured exports and import-replacing goods in the United States will be necessary to bring down our trade deficit to sustainable levels and to reduce America's international debt burden.

***Critical to other high value-added sectors of the economy.*** The maintenance of a strong and vibrant manufacturing sector is essential to other high value-added sectors of the economy, including design, telecommunications, and finance

***Second, the Great Recession has exacerbated worrying trends in manufacturing.***

We are shedding jobs in the manufacturing sector faster than many other sectors of the economy. This is in part because of strong productivity growth, but it is also because we are downsizing our manufacturing capacity during the recession while other countries have a policy of maintaining capacity and employment.

In the absence of a manufacturing policy, manufacturing output

as a percentage of U.S. GDP will continue to decline, as it did over the last decade.

The U.S. trade deficit will continue to balloon.

And the U.S. share of world manufacturing will decrease as it has since 2001.

***This calls for a strategy to strengthen American manufacturing.***

Because of its importance to the U.S. economy, and because of these worrying trends, we need a strategy to strengthen manufacturing across a wide range of industries and product areas not just in the newest green technologies. Such a strategy would aim to lower the cost of doing business in United States while providing companies with the essentials for success. At a minimum, it would:

***Infrastructure.*** Provide businesses with a world-class infrastructure suited for higher-value production and advanced business services by increasing public investment.

***Low-cost energy.*** Reduce the cost of domestic energy and materials by taking greater advantage of the efficiency revolution, and by encouraging the expansion of the supply of natural gas, which is a principal energy source for American manufacturing.

***Training of skilled workers.*** Address the shortage of certain skilled workers by establishing job-specific training programs that would prepare and retrain workers for specific skills for which there is great demand.

***Reducing the tax burden.*** Lower the tax burden on companies locating investment and jobs in the United

States by reducing the corporate income tax and the payroll tax, thereby reducing the cost of capital and the cost of labor—eliminating the current incentives in the tax code to move investment overseas.

*Enforce U.S. trade laws.* Better use trade policy to protect American-based companies from unfair trade practices of mercantilist economies. In particular, the United States should do a better job of protecting American-based companies from supply surges from abroad and from the dumping of excess production during slowdowns in world economic growth, such as occurred after the 1997-8 world financial crisis and is occurring now.

*Increase global demand.* Encourage greater middle class consumption abroad, which would increase demand for American-made goods and services and relieve the burden on the U.S. market as a dumping ground for the excess production of other economies.

*Fairly valued dollar.* Seek an international understanding with America's trade partners to prevent those economies from manipulating the value of their currencies to gain competitive advantage. Such an understanding should permit a decline in the value of the dollar to facilitate the reduction of the U.S. trade deficit and to remove the competitive advantages American-based companies now face. A decline in the value of the dollar would help American-based manufactures by making U.S. exports cheaper and U.S. imports more expensive.

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