By Bob Baugh and Joel Yudken

IS DEINDUSTRIALIZATION INEVITABLE?

Rebuilding America's industrial base is essential for maintaining our country's living standards and restoring the American Dream for future generations. Today we must borrow an unsustainable two billion dollars a day to pay for the goods we consume that we do not produce as a nation. Eventually, we must either produce more of what we consume, or be forced to consume less. Our national competitiveness is eroding despite the fact that American manufacturing workers are the most productive in the world. As a high–wage country in a rapidly globalizing world, we must restore our competitiveness by developing a national industrial strategy centered on innovation. Such a strategy requires raising the level of public and private investment, harnessing the distinctive technological and organizational capacities of U.S. manufacturing companies, and developing the skills of American workers.

Manufacturing has been the foundation of the nation's economic and national security throughout its history. It is a vital engine for economic growth, generating good jobs and guaranteeing a high standard of living for America's working families. It is a mainstay of state and local economies, providing both jobs and tax revenues for essential public services. Manufacturing jobs create as many as four other jobs in local economies, and the earnings and benefits of those workers exceed those of workers in services and other sectors. In addition, manufacturing is the leading industrial sector in providing health care benefits. The sharp

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increase in uninsured Americans, five million over the past four years, is directly related to the decline of manufacturing employment. Manufacturing is also the major driver of U.S. productivity growth and technological innovation.

A NATIONAL CRISIS

TODAY, HOWEVER, AMERICAN MANUFACTURING is under siege. Alarms should be going off everywhere but the crisis is deliberately drowned out by an economic orthodoxy that tells us "globalization is inevitable" and "it's good for consumers." Free market dogma provides cover for government policies shaped by Wall Street, and multinational corporations that are unraveling America's working middle class. The fight for manufacturing is a fight for the economic heart and soul of our country.

The past five years have been especially brutal, far different from earlier manufacturing downturns. The nature of the decline is structural, widespread, and deep. The 2001 recession was precipitated by a manufacturing depression that continues to this day. Since 1998, over 3.4 million manufacturing jobs have been lost—2.9 million of those since 2001—with over half that total coming from union shops. In addition, since 1999, over 40,000 manufacturing establishments have closed—medium and large plant closures have accounted for 90 percent of the job loss.

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The crisis hit everywhere and everyone. State and local tax revenues withered, undermining important public services. On a per capita basis, it has hit minorities, the south, and rural areas the hardest, as textiles, clothing, furniture and more closed or went offshore. Within manufacturing, nearly every subsector has suffered double-digit employment declines—48 percent in textiles, nearly 30 percent in computer and electronic parts and primary metals, and 23 percent in machinery.

The crisis has spread throughout the economy to encompass both high–and low–end occupations. In 2003, engineering unemployment hit seven percent, a level that, even in the worst of times in the early 1980s, never rose above three percent. From 2001 to 2004, the Bureau of Labor Statistics estimates there was a loss of 221,000 technical and engineering jobs: computer programmers, electrical and electronic engineers, and so on. Since January 2001, the U.S. economy lost 725,000 professional, business, and information service jobs, and created only 70,000 jobs in architecture and engineering, many of which are clerical.

Manufacturing is the canary in the coal mine for a "new economy" that has seen outsourcing spread to software, info tech, and financial services. The losses also have spread to the university level where engineering and sciences experienced declining enrollments, as students turned away from degrees for which

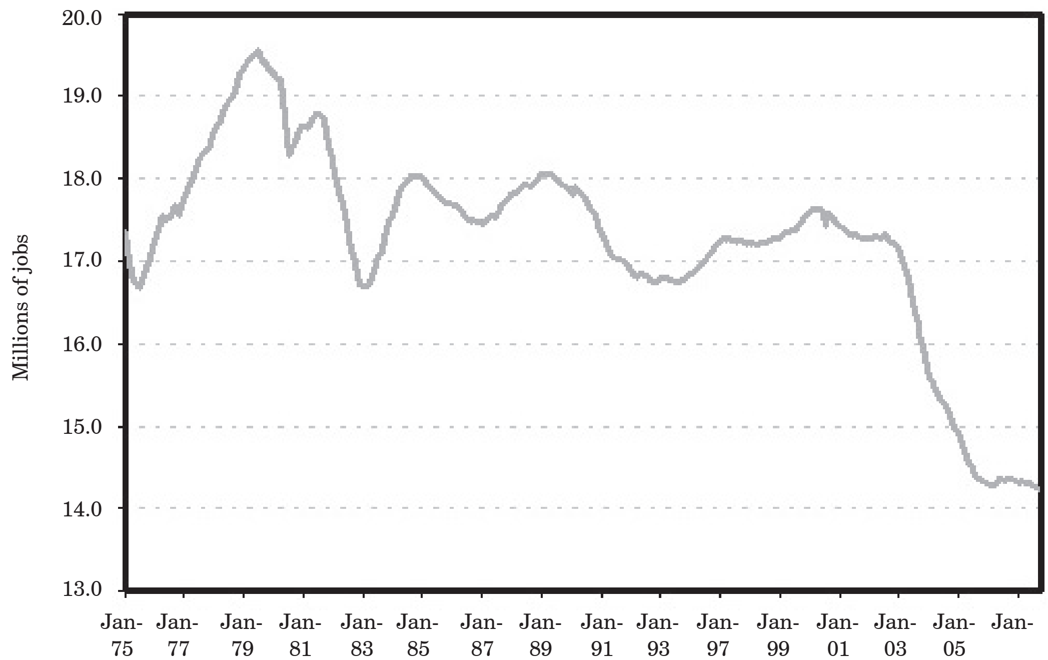

Figure 8. Manufacturing Employment 1975–2005.

Source: Bureau of Labor Statistics

there was no perceived opportunity. Just as troubling is the precipitous decline in domestic manufacturing investment, which fell nearly 17 percent in real terms from its peak in 1998 and 2004, while investment in manufacturing structures declined 44 percent over the same period. At the same time, many of the same firms are making record offshore investments in R&D, engineering, design, and production jobs.

The investment flows portend future production and exports to the United States. Apologist claims that outsourcing is matched by insourcing (foreign investment in domestic manufacturing) are meant to mislead. The insourced investments are overwhelmingly a mere change of ownership that does not result in new jobs and production facilities here. Not so in China, where these are startups and expansions. The foreign direct investment (FDI) flow into China reached $62 billion a year in 2004 and continues to soar. Seventy percent of China's FDI is in manufacturing, with heavy concentration in export-oriented companies and advanced technology sectors. Contracted (future) FDI projections are more than double the actual level today, with U.S.–based firms leading the way. R&D, engineering, design are all part of the manufacturing investments and jobs that the Chinese government is aggressively pursuing.

The startling loss of 40,000 manufacturing establishments and over three million experienced workers underscores the damage to our national security. All of these establishments and workers were part a greater industrial base that met both commercial and defense needs. The factory floor serves as a source of experimentation, innovation, and product development. Many of the engineers, scientists, and skilled workers that work on commercial products one week are the same ones that work on defense applications the next. This vital link between production and innovation, however, is being severed as manufacturers move plants offshore, a move aided and abetted by Pentagon policies to promote globalization of defense products. This trend is evident in a wide range of important industries, from high-tech sectors such as microelectronics, printed circuit boards, and advanced materials; to traditional sectors such as machine tools and ball bearings; to large "systems integrators" such as aerospace and shipbuilding.

The loss of skilled production workers, scientists, engineers, and technical and professional workers across the manufacturing sector means that the next best idea, the next innovation, the next generation of products, and the next investment will be made somewhere else, not in the United States.

FROM INTERNATIONAL COMPETITION TO INTERNATIONALIZATION OF PRODUCTION

THE WORLD HAS CHANGED DRAMATICALLY FOR American manufacturing over the past six decades. Since the end of WWII we have gone from domestic production to international competition to the internationalization of production.

In the 1980s international competition brought a rude awakening for American manufacturing. Henry Ford II's glib "mini cars, mini profits" dismissal of Toyota came back to haunt Ford and many others firms that initially downplayed the international challenge. In time they learned how to respond to the challenges of innovation, efficiency, and quality. Employers, unions, and workers both struggled and cooperated as they adapted new technology and work organization practices. But this is not the only path corporations took.

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There was another response, the internationalization of production—a worldwide search for cheap labor and subsidies. One example is Nike Corp., a company that has never manufactured a shoe in the United States. Phil Knight began Nike as a virtual company—modeled after his Stanford master's thesis—that did design and marketing here while seeking Asian vendors and cheap labor for production.

The same dynamic took hold in major manufacturing industries like auto. While partnerships were being built in domestic plants, the industry began internationalizing their production. They sought cheap nonunion labor by regionalizing production to Mexico. Even before the 1995 North American Free Trade Agreement (NAFTA), the company now known as Delphi had 50,000 employees in Mexico. But, in addition to cheap labor and weak laws, there were other incentives in place for Nike, Delphi, and other firms.

THE POLICY TRAP: TRADE, TAXES, AND HEALTH CARE

Long before NAFTA, Wall Street and multinationals saw the internationalization of production as the way to maximize profits by any means necessary. What NAFTA did do was seal the deal on a trade policy designed by Wall Street and multinationals to assure their leverage over workers and countries through international wage, tax, and regulatory arbitrage. The agreement cemented the asymmetry of our trade policy—protecting intellectual property while ignoring workers' rights—while assuring the mobility of capital protection for those investments. Unlike the postwar approach with Europe and Japan that provided constitutional guarantees of workers' rights to organize and bargain collectively, which resulted in powerful union counterweights that promoted social agendas and challenged the might of capital markets, NAFTA did not empower workers; it simply paved the way for the normalization of relations with China (PNTR), its entry into the WTO, and a continuing string of bad trade agreements, most recently CAFTA (Central American Free Trade Agreement).

Our trade policies have a soul mate—U.S. tax policy. Nowhere is this more obvious than in manufacturing, where accounting rules, domestic tax credits, and tax deferrals on foreign profits create a toxic brew that subsidizes multinational outsourcing and punishes domestic producers.

According to Congressman Charles Rangel and congressional tax expert John Buckley, here is how it works: "A company closing a plant in the United States in order to move operations overseas can deduct the cost of the plant closing against U.S. tax liability. The company receives a tax benefit worth as much as 35 percent of the plant closing costs even though deferral may permit it to avoid tax on the income from the overseas operations. Similarly, a company can fund its foreign operations by borrowing money in the United States and making an equity investment in its foreign subsidiary. Interest on the loan gives rise to a U.S. tax deduction even though there is no U.S. tax on the income from the investment while the income remains overseas."

Trade, taxes, and the absence of a comprehensive health care system are a deadly combination. Our competitors either have national health care systems for all their citizens, or none at all. When it costs GM $1400 more to manufacture a car in Detroit than it does across the river in Windsor, Ontario, it's a big problem. Health care has undermined bargaining power for wages in every sector as it has become the number one issue in every negotiation. And 45 million citizens without any health insurance at all is a national disgrace that imposes additional costs on existing employer coverage.

PAYING THE PRICE

This year the trade deficit grew another 17.5 percent to $725 billion, exceeding six percent of the GDP in the last quarter. We would have to increase our exports by over 150 percent just to stay even with the current deficit levels. All the trade trends are bad: advanced technology's deficit is growing, agriculture is flirting with a deficit itself, and the services surplus has declined by nearly half to $56 billion.

The deficit with China is of particular concern. It grew another 25 percent in 2005 to $201 billion, once again expanding the largest bilateral deficit in the history of the world. The Economic Policy Institute estimates 410,000 manufacturing jobs were lost to China between 2002 and 2004. Empty cargo containers are our largest export to China, followed by soybeans and raw materials—scrap metal, scrap paper and cardboard, soybeans and parts—that return as finished products. It is particularly troubling that China not only is taking away jobs from traditional sectors such as textiles and steel, but it has now begun to successfully compete with the United States in advanced technology markets. Commercial aircraft is a major U.S. export, but in the future 70 percent of Boeing's new 787 will be manufactured offshore primarily in China and Japan.

Chinese wage suppression, achieved through workers' rights repression, has caused manufacturing firms and their workers worldwide to struggle with the downward pressure on profits and wages. Recently, in the endless search for a cheaper wage, a Chinese plastic bag manufacturer relocated his business to North Vietnam. There he could pay $36 a month rather than the $72 per month he had to pay in China. "In this area," the plant owner said, "workers have a hard time finding jobs. They are happy for any work, and they are willing to eat a lot of bitterness."

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American workers are eating their own share of bitterness with the help of Wall Street and the government. American firms lead the way in direct and indirect investment in China, while at home, except for intellectual property rights, they oppose tougher trade agreements or enforcement of existing trade laws while threatening their unions and vendors with the China price. Thus, as the cartoon character Pogo once said, "We have met the enemy and he is us."

Currency manipulation has been especially harmful on a broad basis. For example, Japan, Korea, Indonesia, Singapore, and Taiwan all keep their currencies within a narrow band of China's currency because they fear becoming uncompetitive. China, Japan, and Korea alone account for more than 40 percent of the U.S. trade deficit. The Chinese government keeps the yuan pegged to the dollar at a rate experts believe is nearly 40 per cent undervalued. Beleaguered American manufacturers make the point that they are competing in a 100-yard race with opponents that start on the 40-yard line.

There is a contradiction in all this—the growing trade deficit is unsustainable and dangerous. The real danger lies in the growing debt load the deficits produce. Today, China and Japan each hold nearly $1 trillion apiece in U.S. dollars, a huge imbalance that is a threat to the stability of the world economy. The overwhelming level of U.S. debt cannot go on endlessly. Resolving it means we must either produce and export more or consume less. Achieving balanced trade though increased production and exports is the best way to solve the deficit, but therein lies the problem … if you don't make things you have nothing to trade, and if we have nothing to trade the deficit cannot be solved. The real problem is free market fundamentalism that drives trade, tax, and other policies that undermine our national security.

ECONOMIC ORTHODOXY, NEOLIBERALS, AND WALL STREET

The free market-free trade orthodoxy is quick to ridicule polls showing public concern over the trade-related loss of manufacturing jobs. The so-called experts continue to perpetuate myths of manufacturing such as: job loss is due to productivity not outsourcing, trade only plays a minor role, manufacturing doesn't matter as much in today's economy, and better training for displaced workers will take care of things. In spite of their united front, cracks are beginning to appear in the wall.

Studies from the AFL-CIO Industrial Union Council (IUC), EPI, and Cornell University's Kate Bronfenbrenner provide further evidence that the innuendo of the experts misleads the public. The IUC studies of four states (PA, OH, WI, and WA) show that between 52 percent and 88 percent of the manufacturing workers receiving WARN notices in those states between 2000 and 2004 lost their jobs directly due to trade. The studies also showed that the replacement wages for workers finding employment falls far below the jobs that left.

The Wall Street Agenda, created under successive Democratic and Republican administrations, is composed of six interrelated positive-sounding policy themes: price stability, tax cuts, and balanced budgets, globalization, privatization and deregulation, labor market flexibility, and personal responsibility. All are accompanied by a political mantra … the government is the problem, the market is the answer.

The labor movement and our allies are determined to advance a comprehensive economic and social strategy to directly counter the Wall Street agenda. Manufacturing must be at the heart of the strategy because the country has a fundamental economic interest in good jobs. Communities need the wages, benefits, and economic prosperity manufacturing brings. The country needs manufactured products for domestic and international markets because without them we cannot solve a trade deficit that imperils the nation's economy.

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A NATIONAL MANUFACTURING STRATEGY MATTERS

While we watch our manufacturing base erode, our foreign competitors pursue strategies to build up their manufacturing industries with export-led development models designed to create jobs and income. They have succeeded in their efforts to target industry sectors, to start low and move up the scale, increase quality and efficiency, innovate, work with government agencies, and target markets (especially the United States). In addition, keeping long term gains in mind, their firms will often seek market share over profits with the support of their financial systems.

Other countries' governments also look at trade differently. For example, Japan does not fixate on consumers like the United States, and they manage their trade very differently with China. Business writer Eamon Fingleton has documented these differences: "Unlike the United States, Japan believes in managing its trade. Although Japanese officials recognize that consumers can benefit from trade, they also recognize that people need jobs and incomes before they can consume. Thus where imports might pose a significant threat to Japanese jobs, the Japanese government works to minimize the damage. Besides influencing the pace of outsourcing, Japanese policymakers ensure the trend does not entail the leakage abroad of the nation's key production technologies. Thus individual corporations are not permitted unilaterally to transfer advanced technologies to foreign operations."

Congress should call a halt to any new trade deals until the trade deficit is reversed …

The fundamental lesson for the United States here is that manufacturing is a prized sector in both developing and highly industrialized nations. Our competitors value the jobs, income, and economic diversity manufacturing brings, and they aggressively pursue national strategies to support their manufacturing base. Here, employers and government have abandoned American manufacturing workers. It is time for our country to recognize these challenges and to develop a strategic approach of our own to revitalize manufacturing.

LABOR'S MANUFACTURING STRATEGY

Over the past three years, the IUC has worked to develop an agenda for the revitalization of American manufacturing. It is far from complete but it provides a roadmap for further development. It involves both social policy as well trade, tax, investment, and labor policy. It pits us directly against the Wall Street agenda.

Our international trade policy needs to stop Wall Street's globalization agenda that has been imposed through our trade deals. Congress should call a halt to any new trade deals until the trade deficit is reversed and ensure that existing trade laws like the U.S. Trade Act of 1974 (amended in 1988 to include workers' rights) are enforced. Any new trade agreements must have enforceable ILO labor standards as well as environmental standards. The U.S. government should press the WTO to adopt core labor standards. And we need to enforce the same labor standards at home, beginning with Congress passing the Employer Free Choice Act.

Tax policy needs to be turned upside down and structured to encourage domestic investment in production. The first step is to abolish the current system of deferrals, tax credits, and accounting rules that encourage outsourcing. New policies should also assure that investments made directly with public finds and indirectly through taxes credits result in domestic manufacturing employment. For example, to be able to take advantage of the research and development tax credit, companies must be held accountable for domestic production that occurs as a result of the R&D.

The United States also needs a manufacturing investment strategy based on addressing important national goals such as energy independence and rebuilding the nation's decaying physical infrastructure. The Apollo Alliance (www.apolloalliance.org) is a good starting point for a targeted investment policy that can lead to new production, innovation, and jobs. The Apollo Alliance is a labor-driven coalition to develop energy alternatives and promote energy efficiency through public and private investments. It supports $300 billion in investments over 10 years to promote new energy technologies as well as regulatory approaches for smart growth and energy efficiency in buildings. It calls for an aggressive effort to expand domestic production of highly efficient manufactured goods, such as hybrid cars, advanced internal combustion engines and energy efficient appliances, prompting new investment in existing U.S. plants and workers rather than allowing the market to become dominated by imports and foreign transplants. Increasing domestic investment in more efficient manufacturing processes in turn will spur new capital investments and improved use of skilled labor in the operation and maintenance of production facilities. It simply makes sense to seek energy independence though advanced transportation infrastructure, clean coal, hydrogen engines, small engine efficiency, and alternative energy resources (solar, thermal, and wind) and tie them all to domestic investment and production.

Another approach that requires much more consideration is looking at manufacturing through the lens of base industries, critical technologies, worker skills, and education. Advanced materials (metals, ceramics, composites, etc), aerospace, auto (four percent of GDP) computers, electronics, and machine tools are vital manufacturing sectors for maintaining America's innovative and technological edge. Policies may range from changes in trade and tax policy to encourage domestic investment, and programs for helping small and medium-sized manufacturers become more competitive, to greater R&D investments, including direct research investments across an industry, like Sematech in the semiconductor industry, in the 1980s. This is not a call to form a Japanese, like MITI. Rather, it is recognition of the need for a well-thought-out American strategy for manufacturing. It will require some very different thinking about national interests and industrial strategy than the current economic mindset allows.

The first step is to abolish the current system of deferrals, tax credits, and accounting rules that encourage outsourcing.

We also need greater investments in developing workers' skills and training. Ironically, in a nation without a national manufacturing strategy, this is one area in which there is one. In November 2005, after nearly eight years in development, the Manufacturing Skills Standards Council rolled out a set of national skill standards for manufacturing. This joint labor, business, government, and education effort was initiated in 1995 by the AFL-CIO Working for America Institute, Industrial Union Department, and the National Council for Advanced Manufacturing. The standards are an important milestone for a comprehensive system that assesses worker skills, certifies them, and provides training for high performance work organizations. The *foundational* skills include math, science, reading, writing, communications, IT, problem-solving, teamwork, business fundamentals, analysis, planning and basic technical skills—all in a manufacturing context. When it comes to displaced workers, Trade Adjustment Assistance is necessary and needs to be much improved but neoliberals are dead wrong to think training is the only answer to the manufacturing crisis.

Health care and retirement security may be social policy issues but they are also a critical issue in manufacturing competitiveness. With our employer-based health care system these costs and the legacy costs for pensions and retiree health have become a serious barrier to workers and employers. This country needs a national health care system but state federations aren't waiting for Congress to act. For example, the Wisconsin AFL-CIO is working with major employers around a single payer pool approach that will lower costs while extending benefits to uninsured workers. California, Massachusetts, and other state federations have pushed "pay or play" legislative efforts in their states to expand employer coverage. In Maryland, the state federation helped pass a bill that foreshadowed the January 2006 launch of the AFL-CIO's Fair Share Health Care campaign in 31 states, to pass legislation that requires large employers to invest up to 12 percent of payroll in health care benefits. The state health care initiative that unions are helping lead is pushing the debate and may provide the models we so desperately need at the national level.

Manufacturing is critical to the future of our country. It is at the core of our domestic economic problems and the key to the solution. To rebuild manufacturing means taking on the Wall Street agenda with vision, strategy, and political will. America needs a national industrial strategy for revitalizing American manufacturing that can serve as a centerpiece of an alternative national economic strategy for building a stronger and more just economy for the nation. ■

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