American Manufacturing: Can it Be Revived?

Mike Collins, Author

America has been a very weak competitor in the game of globalization and has not used its power or legal rights to improve American manufacturing. I don't mean protectionist policies, I mean competing with foreign countries within the rules and guidelines in the agreement they signed with the World Trade Organization, to simply level the playing field. This includes incentives for American corporations that create jobs and make investments in the U.S.

The following describes the key issues facing American manufacturers that need to be addressed with action (not rhetoric). I think that the solutions offered [1] by Scott Paul, President of the Alliance for American Manufacturing [2] (AAM) make a lot of sense.

ENFORCING OUR TRADE AGREEMENTS

AAM: "Keep our trade laws strong and strictly enforced. Refocus the trade agenda by giving American businesses new tools to counter currency manipulation, industrial subsidies, intellectual property theft, and barriers to market access by our trading partners."

Mike Collins: The problem is that neither Democrats nor Republicans in Washington seem to be willing to take on China regarding any of these problems. Polls show however that the U.S. voters want tough action on China.

KEEPING IT AMERICAN-MADE

AAM: "Direct the Department of Defense to leverage existing procurement to contractors that commit to increasing their domestic content of our military equipment, technology, and supplies. This should commence with a top-to-bottom assessment of our defense industrial base to identify potential vulnerabilities or gaps where production of critical items and materials are at risk of no longer being

sourced domestically."

Collins: If the new Trans Pacific Agreement gets passed as written the U.S. will be forced to give all 12 countries in the partnership equal access to all of our government contracts. This would negate the American Made proposal put forth by AAM.

NEW TRADE AGREEMENTS

AAM: "Ensure that the proposed Trans-Pacific Partnership includes measures to prohibit trade-distorting currency manipulation."

Collins: A January 2014 report fro the Public Citizen group Global Trade Watch conducted a 20-year update of the outcome of the NAFTA agreement. They found that 845,000 U.S. workers received assistance from the Trade Assistance Act because they lost their jobs due to imports from Canada and Mexico.

It is true that the TPP will increase overall trade between the U.S. and the other countries, but supporters never discuss the downside. Just as happened with NAFTA jobs will be off shored to the lower cost countries, like Vietnam where workers earn 28 cents and hour. And if their imports are far greater then our exports it will simply increase the trade deficit.

RESHAPE THE TAX CODE IN FAVOR OF DOMESTIC MANUFACTURING

AAM: "We should lower tax rates for manufacturing activity in America and expand up-front expensing for plant and equipment purchases. Research and development tax credits should help firms that not only innovate in America, but also make their products here."

Collins: President Timmons of NAM says the large manufacturers must get reduced taxes and regulation, but he does not say it will create jobs or his members will stop off shoring jobs if he gets these breaks. The pressure and publicity will continue to build that makes a case that the large corporations should have their total state/federal taxes reduced from 39% to 20%. They also want the cash they are keeping in foreign banks to be brought into the U.S with a one-time repatriation tax (approximately 5%). In 2004 they received the one-time tax of 5.25% from President Bush but little of the money created jobs and most of it went to the shareholders or for stock buy-back purchases.

If creating manufacturing jobs in the U.S. is the objective, then the incentive for receiving tax reductions should be based on this objective. Any tax reductions or tax credits for R and D should be based on creating jobs and investment in the U.S – not overseas.

EDUCATION AND TRAINING

AAM: "To be sure, community colleges are slowly scraping the rust off of the manufacturing talent pipeline, and some communities are putting vocational

educational opportunities back into place for high school students. But the response so far from D.C. has been completely inadequate to meet the needs of the manufacturing sector, particularly if re-shoring becomes more of a trend and as retirements from an aging workforce begin to pile up."

AAM: "Devote additional educational investment to rebuilding our vocational and technical skills programs, which would address potential shortages of qualified workers needed in the manufacturing sector."

Collins: Yes, President Obama has proposed more funding for community colleges and the Skills for America's Future Program. This is good first step but it only gets us halfway there. R. Timmons of NAM said recently that "eighty two percent of manufacturers report they have jobs going unfilled because they can't find people because of the skills gap." My response is that to get our bright young people to be interested in a manufacturing job will require a commitment to long-term apprentice type training and an agreement to pay them for skills learned. The Fortune 500 corporations are not going to continue their relentless drive to lower labor costs and get multi-skilled people.

TRADE DEFICIT

AAM: "Our goal should be to cut the U.S. goods trade deficit in half by 2017. This can be accomplished by tackling Japanese and Chinese currency manipulation and by ensuring our workers and businesses aren't forced to compete with state-supported industries abroad. Germany, subject to precisely the same sort of technological change and globalization effects as the United States, has (1) 23% of its economy still in manufacturing, (2) a trade surplus, and (3) a steady share of global exports despite the rise of China. We've fallen in all three of those data points dramatically over the past 15 years. The trade deficit is more then a number. It represents a shrinking middle class, shrinking job opportunities and further proof that our economic policies – including a lack of enforcement of existing trade laws- contribute to outsourcing."

Collins: I agree that cutting the trade deficit in half by 2017 would be fantastic boost, but getting any administration to legally confront China and Japan for currency manipulation seems to be beyond what they think they can do politically.

A recent report from the Economic Policy Institute states that" Currency manipulation, which distorts trade flows by artificially lowering the cost of U.S. imports and raising the cost of U.S. exports, is the primary cause of these growing trade deficits. Currency manipulation has increased global trade imbalances by between $700 billion to $900 billion per year, but the United States has absorbed the largest share. Halting global currency manipulation by penalizing or offsetting currency manipulation is the best way to reduce trade deficits, create jobs, and rebuild the economy." [1] [3]The report goes on to conclude that stopping currency manipulation could create between 2.3 million to 5.8 million jobs.

Have you ever wondered why some people cry continuously about Federal deficits, but seldom say anything about the trade deficit? Borrowing money to finance our

trade deficit is a good deal for the large corporations who benefit the most from trade agreements.

INFRASTRUCTURE INVESTMENT

In an earlier article I wrote that a comprehensive plan to upgrade or repair our infrastructure should include water, sewer, highways, bridges, electric grid, and waterways and will cost more then $1 trillion or $200 to $300 billion a year. But, it would create millions of manufacturing and construction jobs for the middle class.

Globalization was inevitable but we have been a poor competitor in the game. We can't really count on the multi-national companies to improve wages and benefits, or to stop off-shoring jobs, or to quit doing their R and D overseas, or to give more then lip service to job creation. Despite the fact that President Obama always seems to select Fortune 500 CEOS for all of his policy teams, they have proven to be part of the problem and not the solution.

It appears that just like in the 1930s we will have to rely on government to help us create good jobs in the "New Economy" – particularly for those problems that require a political solution like currency manipulation and the trade deficit. Depending on government may be hard for many small and midsize manufacturers to swallow but I think the proposed solutions from Scott Paul and the AAM are the only reasonable way forward if manufacturing job creation and the prosperity of the middle class is the goal.

What the manufacturing sector provides more than any other sector are innovation and new technologies. But as the manufacturing sector shrinks we are slowly losing the critical mass of manufacturing that it takes to be a competitive innovative economy. The sector is shrinking because we are not creating enough new jobs, increasing our American R & D investment, training enough highly skilled employees, investing enough money in Federal Government Basic research, investing enough in U.S. plants and equipment, protecting our technologies, or making any effort to balance our trade. All of these factors taken together form a critical mass that creates the innovation economy that is necessary to compete and support the rest of the economy

Our total support for the free market has allowed countries like China to use protectionism and deliberate violation of trade law to maintain surpluses in their economy while the U.S. sinks into an expanding trade deficit year after year. If we truly support American Manufacturing then we should demand that all of our trading partners play by the same rules, and that is what our federal government should insist on. Our trade deficit is now $8 trillion and is not a sustainable economic strategy. So if the government can't or won't do anything about it then what are the alternatives?

- We can rely on free market economics and simply depend on the market forces and large corporations to decide our fate.
- We can keep government out of the solution and hope that the labor costs

in China continue to rise to a point where American corporations begin bringing back jobs and product lines.

- We can believe in the prestigious journal Economist that says “The fall in employment in America and elsewhere should be seen as a good thing, it largely reflects rapid productivity growth. Even though manufacturing jobs have been lost, it would appear that most laid-off factory workers have found new jobs.”

- Or we can ask government to give the large corporations the tax breaks, reductions in regulations, and the Trans-Pacific Trade agreement in the hope that they will find it in their hearts to reward us with good paying jobs.

But hope is not a plan and from my perspective American Manufacturing is still treading water in open ocean with no land in sight.

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