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# ECONOMIC POLICY INSTITUTE

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## MANUFACTURING: KEY TO AMERICA'S FUTURE

**Presentation by Jeff Faux\***

**Industrial Union Council Legislative Conference**

**Washington, DC**

**February 4, 2003**

This morning you march on Capitol Hill for the opening round in the campaign to bring back North America's industrial base. I'm proud to be here to help you make the arguments for this important cause.

It's essential that we succeed. Essential to bring decent jobs back to America. Essential to build the labor movement. And essential for the security and prosperity of the United States. We do this not just for people who work in manufacturing, but for everybody who works for a living.

Now I'm going to walk you through some basic arguments to make when you go up to Capitol Hill this morning -- and to make after you go back home and talk to people in your neighborhood, on your job, and in your local media. The battle just starts today, here in Washington. It must continue to be fought in the days ahead by bringing this argument to people all over our continent.

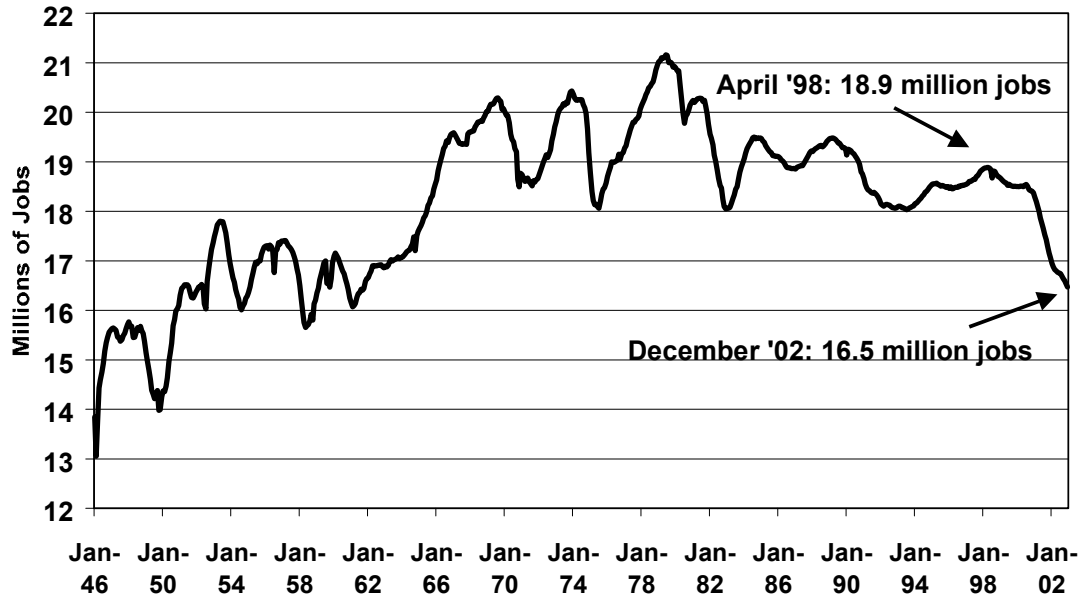
Let's start with the basic question: What is the problem?

Chart 1. shows you what's happened to manufacturing jobs since the beginning of World War II. The line starts at the left and rises throughout the first three post-war decades. Through the ups and downs of the normal business cycles, the number of U.S. manufacturing jobs rose in the 1950s, the 1960s, and the 1970s. This period was the greatest era of prosperity for America that we've ever known. It created the middle class. It created a world in which people who work for a living could own a home, think ahead to their kids going to school -- and staying in school, -- to being able to retire with comfort and dignity.

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\* Charts prepared by Adam Hersh

**Chart 1: U.S. Manufacturing Jobs, 1946-2002**

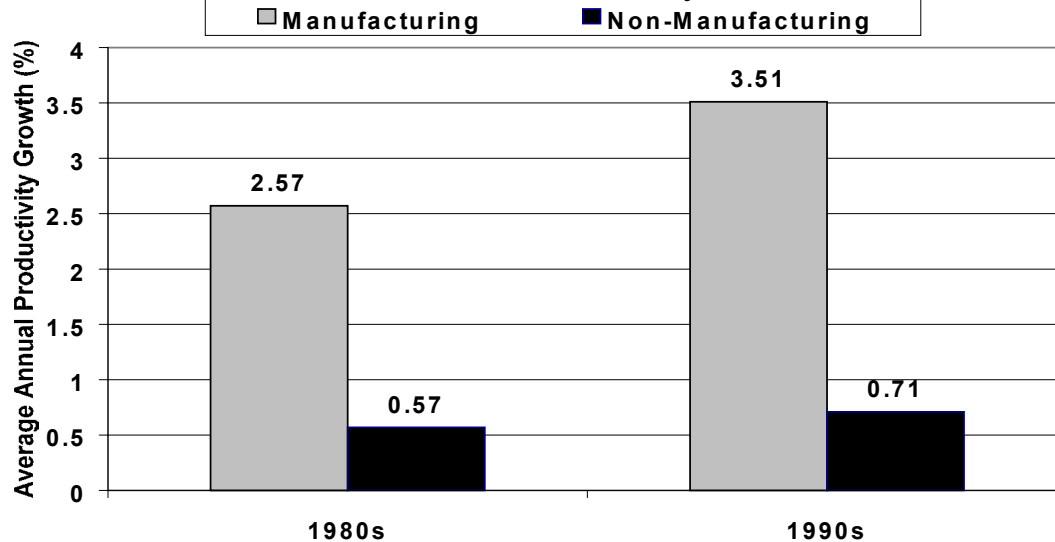


This trend peaked in 1979. Between 1979 and today we've lost about 5 million jobs in manufacturing – 2.5 million since 1998.

So why should anybody else, except us, care about this? Why should America care? Remember you're going to be talking to members of Congress and their staff who have other constituents – most of whom do not work in manufacturing. So although they will be polite, many will be thinking: "Lots of people have problems, why does this one deserve my attention?"

As the next chart tells us one reason it matters is because manufacturing is the major source of productivity growth for the entire country. In turn, productivity growth is the source of higher wages, higher profits and lower prices.

**Chart 2: Productivity**



It's not that people in manufacturing necessarily work any harder than people who work, in, say, restaurants or hospitals. It's that the job of making things, as opposed to providing services, naturally lends itself to producing steady improvements in overall efficiency. There is a limit to how much faster a waiter in a restaurant can serve customers or an orderly can make a hospital bed. But because a factory uses machines to make goods – as opposed to serving humans – there is no theoretical limit to a factory worker's efficiency. Increased wages from factory work then get spread out into the economy when the factory worker goes to the restaurant and when the waiter buys a car for a lower price.

As you can see from Chart 2, manufacturing in the 1980s and 1990s delivered 5 times the productivity growth of non-manufacturing. If America had not had a manufacturing sector in the last twenty years, everyone's income, no matter what his or her occupation, would have been substantially lower. So what's good for manufacturing is good for America.

**Chart 3: Hourly Wages and the Trade Deficit**

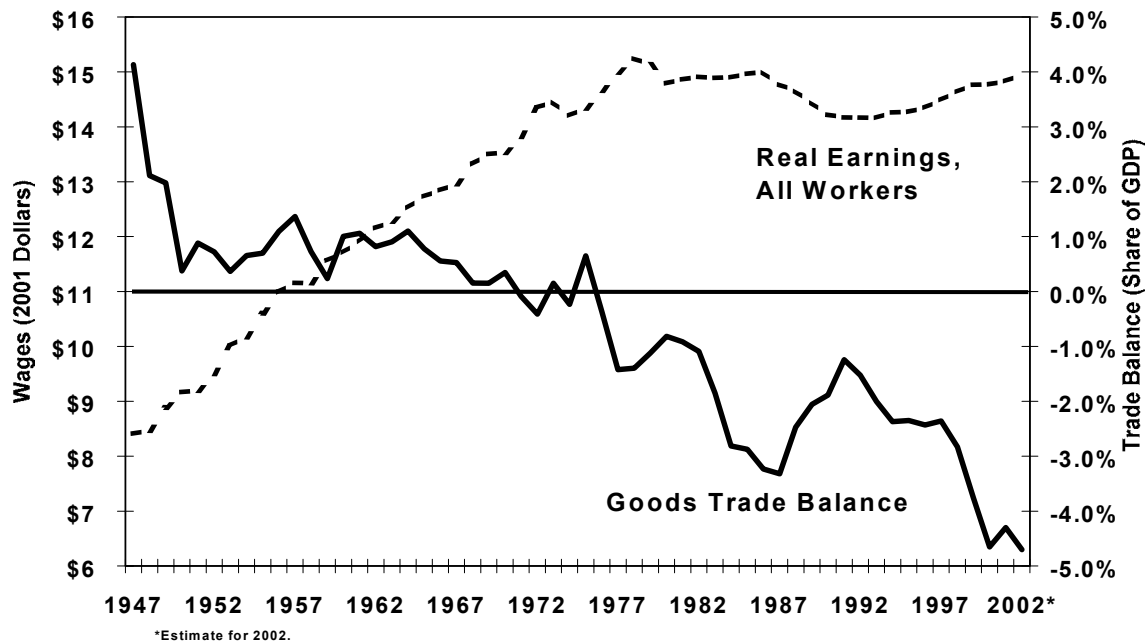


Chart 3 shows us that what's *bad* for manufacturing is *bad* for America. The line dropping down from the left side describes the United States trade account in goods with the rest of the world. We're measuring the trade balance here as a percentage of our overall economy – the Gross Domestic Product. The line represents the gap between the value of the goods we're selling abroad and the value of the goods we're buying. The straight line is the point where imports equal exports.

As you can see, during that period of great prosperity, the 1950s and the 1960s and into the mid 1970s, we were selling more goods to the rest of the world than we were

buying. So the trade balance was above the horizontal line. We had a trade surplus. Then in the mid 1970s, we began to buy more from the rest of the world than we sold. So our surpluses changed to deficits. Year by year, we slipped further into the area below the horizontal line. We have now been running trade deficits for 25 years, which is a major reason we have been losing jobs in manufacturing.

It is no accident that these deficits have occurred during this period when our presidents have signed trade agreements that protect corporate investors who want to transfer production overseas and then sell the products back in our market. But although these trade deals give investors more protection, they give workers less. They force workers of *all* countries to compete with each other in a downward spiral of lower wages and worsening working conditions. Remember, your enemy is not the worker in another country, who like you is trying to put bread on the table and make sure the family has a roof over its head. Your enemy is the corporate exploiter – whatever his nationality - trying to force both of you to work harder for less.

This corporate-government strategy has affected *all* manufacturing industries. high-tech or low-tech, – autos, paper, energy, steel, textiles, furniture, machinery, process foods, consumer electronics. Anybody who makes goods in America,

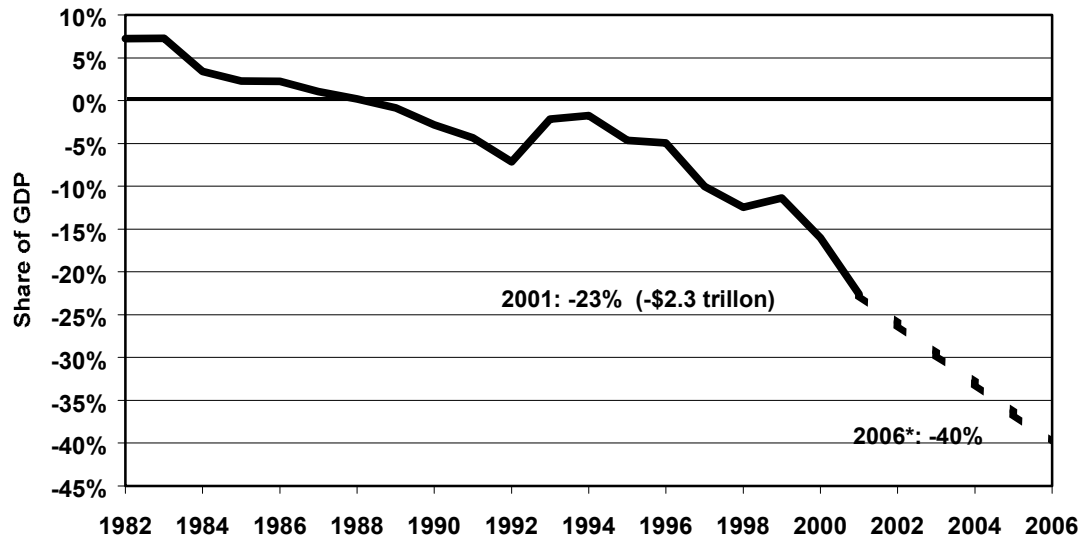
Now look at the other line on this chart. That's the line that shows the trend in real earnings for *all* workers – not just manufacturing workers -- over the same period. By real earnings I mean what's in your paycheck, adjusted for the cost of living. It's what you can buy with whatever money you make. As you can see, real earnings went up as manufacturing expanded, until the late 1970s. Then the line stops growing. Falling a little, rising a little, basically stagnating. So, twenty-five years of trade deficits that have clobbered manufacturing have stopped the growth in real wages in other industries as well.

Let's look at that trade balance again. Another way of saying we are importing more than we are exporting, is that we are spending more than we are making. This raises an interesting question: How does a country, for more than 25 years, go about spending more on imports than it is earning from exports?

Well, a country does it the same way you or I do it when we're spending more than our income: we borrow it. We mortgage our home. We also sell our assets. So, for 25 years, our country has been borrowing money and selling assets in order to pay for imports of goods that we can – and used to – make here. And some of those assets include technology that we have sold to foreign countries, making them more competitive.

And, by the way, to potential enemies, making them more dangerous. The United States today is heavily dependent on outsourced components and supplies for the missiles that we make, for the aircraft, for the tanks and for all of the other things that we need for American security.

Chart 4: US Net International Investment Position



As the next chart shows, after 25 years of borrowing from others, the United States is deeper and deeper in debt. For a while we kept solvent, on the books at least, because of the value of old investments in Europe and other places. But in the late 1980s our whole financial position went into the red and stayed there. Today we owe 23 percent of our total GDP to foreigners. At this rate, in another few years, we will owe 40 percent. That's about the level of Argentina just before its economy collapsed.

Of course, you can borrow for a long time if you've got a good line of credit. But you know and I know that you can't buy more from the rest of the world than you sell forever, because you can't keep borrowing forever. Especially, when you get to the point where you're borrowing to pay the interest. Then what happens? Your debt gets so high that you fall behind on the payments. The bank and the finance company notice it and they cut you off, and there goes your life.

In the same way, if our country continues to buy more from the rest of the world than it sells, at some point, the debts get so high that foreign bankers will cut us off and decide that it's too risky. When that moment comes, the value of the dollar will drop like a lead weight, interest rates will rise, investment will dry up, unemployment will go through the roof, and we're in for a long period of hard times.

Now, when you're up there on Capitol Hill and talking to a member of Congress and his or her staff, you might notice a skeptical look in their eye, as if they are saying to themselves "Things don't look so bad. Despite this recession, we seem to be doing okay."

Of course, the country *seems* to be getting by – as long as you don't look at the books. I knew a fellow once who had two cars, a boat, a big house, and a vacation cabin. Nobody knew he was over his head in debt. Then one day, the bank called. Soon, the car disappeared, the house disappeared, boat disappeared, and the cabin disappeared. The game was up.

The only way for our country to avoid this fate is to reverse that trade deficit. We need to import less, export more, or both.

Either way, – and brothers and sisters, if you forget everything I’ve said this morning, don’t forget this: either way, *America needs to expand its manufacturing capacity*. If we import less, we have to make more here. If we export more, we have to make more here. If we can’t make more goods here, we will never work our way out of this problem, and it will get worse and worse. Again, either way, we’ve got to produce more goods in the United States.

So it’s not just about *preserving* your job. It’s not just about *preserving* your industry; it’s about *expanding* them. Unfortunately, instead of expanding our capacity, we’re shrinking it. We’re outsourcing, we’re closing plants, and we’re kicking skilled workers into the streets. These are the things we shouldn’t be doing, because as our industrial base shrinks, our trade deficit goes up, we get deeper into debt and it becomes harder to work out of it.

Some people say that manufacturing is a thing of the past, that factories making things are old-fashioned. That is wrong. Manufacturing has to be in our future for the simple reason that you can’t go on forever buying more than you sell to the world.

Now, what should the government do about this? You’ll soon be hearing from a panel of experts who will go into detail. Let me start off with a few ideas.

Chart 5: What the Government Should Do

- *Freeze trade deals until trade deficit eliminated*
- *Stop encouraging outsourcing*
- *Organize national health insurance*
- *“Buy American” for national security*
- *Let workers organize*

We ought to be freezing all further trade deals until the trade deficit is eliminated, period.

We need to stop the tax crazy tax giveaways to corporations that encourage them to invest overseas.

We need to organize for national health insurance. This is not just about our people’s health, although God knows that’s a good enough reason to do it. But it’s about the health of our economy. American manufacturers cannot compete with countries

where health care is a government service and not up to the individual company to provide it.

We need to have a serious Buy America program for defense. What is going on? This morning's paper says we're going to have a huge increase in the defense budget. What they didn't tell us was that an increasing share of that money is being spent overseas. Now how do you have national security when you're dependent upon suppliers that have to ship some part 3,000 miles to put it into a missile? Ask that question when you go up to Capitol Hill.

And, finally, as John Sweeney and Rich Trumka have said, we need labor law reform. We need to make sure that your brothers and sisters who work in manufacturing – and work in every other place in America – have the right to bargain to get fair share of the rewards from their higher productivity.

The campaign is starting today but it doesn't end today. Take these arguments and the arguments that the panelists will give you back home, and on the job. Write letters to the editors; get on the local call-in radio shows.

You know, when I drive around the country, sometimes I put on the radio and listen to the talk shows where the right wing drunks call up defending tax cuts for the rich, cuts in Medicare, and privatizing Social Security. And sometimes I ask where are our drunks?

Now, I don't mean it should take a bottle of whiskey to activate you. I do mean when you're stuck in traffic, or at home or working around the house and these jerks get on the air, pick up your phone and call up these shows. Get on their case, talk to them about what our country needs in order to prosper and survive. And when your member of Congress comes back to your district, don't get trapped into small talk. You didn't elect your representative to talk to you about the football game. Leave the small talk to others. What you want to know is what is he or she going to do to save and expand manufacturing in America. Period.

It's not just for you. And it's not just for your union. It's for your country. Thank you very much.