

Can American Manufacturing Be Saved?

National Economics

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The recent talk around the table in a coffee house I frequent centered upon economic development. A banker in the group suggested that America simply abandon manufacturing. "Let others make the buggy whips," he opined as he championed total immersion into technology. There was certainly some logic to his rather pessimistic opinion. It is increasingly difficult for American manufacturers to survive in the age of "globalization." That fact is outlined in a new study issued by the National Association of Manufacturers (NAM) entitled, "How Structural Costs Imposed on U.S. Manufacturers Harm Workers and Threaten Competitiveness."

During the 1990s, manufacturers utilized technology and ingenuity to create astounding gains in productivity, returning American manufacturing to a role of competitive preeminence. Unfortunately, that tide of preeminence has drastically ebbed again, undermined by increasing imports, a reduction in demand for U.S. exports, and governmentally imposed factors that give foreign manufacturers a competitive advantage over domestic ones. Due to the intense foreign competition for orders of durable goods, the cost-price squeeze that American manufacturers are facing cannot be solved by simply increasing prices.

According to the NAM report, externally imposed overhead costs from taxes, pension and health benefits, tort litigation, government regulations, and escalating energy costs add approximately 22 percent to domestic manufacturers' unit labor costs. Put another way,

government influenced or imposed costs add \$5 per worker hour to the cost of American manufacturers. That additional cost is approximately equal to the entire raw cost per worker hour of manufacturing in China. Though American manufacturers have increased their productivity by 54 percent since 1990, the externally imposed overhead costs have, for all practical purposes, eroded most if not all of those productivity gains.

The NAM study recommends six steps to remove the externally imposed cost factors that are clouding the future of American manufacturing:

- ** Reduce the corporate tax burden and reform the treatment of foreign-source income.
- ** Reduce the burden of rising health care coverage costs.
- ** Reform rules for funding pension plans to avoid devastating cyclical swings in funding requirements.
- ** Undertake legal reform by curtailing frivolous lawsuits, placing nationwide class action lawsuits in federal court, and negotiating fair and equitable compensation for legitimate asbestos claims.
- ** Establish a more objective cost-benefit review process for government regulations, taking fully into account adverse economic consequences.
- ** Change regulations to allow access to undeveloped natural gas reserves.

Unfortunately, instead of addressing those six recommendations in a positive fashion, the

federal government, and many state governments as well, continue to add to the external costs of manufacturers and other business interests. Health care mandates, refusal to enact meaningful tort reform, prohibitions against exploring for critical natural gas supplies, and government regulations that address economic considerations last, not first, pile up daily.

■■■■■■■■ Perhaps the banker was right... Perhaps, due to the ascendancy of government and the lack of political will to address manufacturing problems, our high paying durable goods manufacturing jobs should just disappear and become relics of the past, like the buggy whips. After all, as long as we have an ever-increasing number of those good paying government jobs, who needs manufacturing?