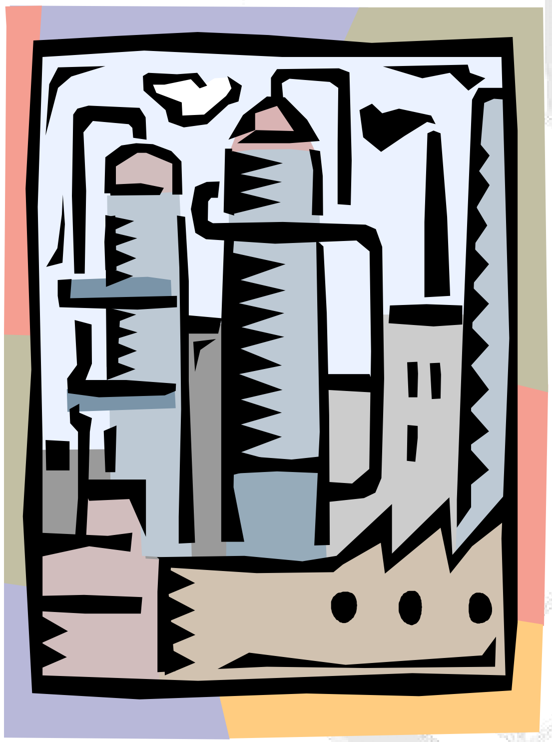
Manufacturing:
Important to U.S. & Michigan



- In the U.S. (compared to 1998), manufacturing makes up:
  - 5.0% of all establishments (353k plants; 1998 = 380k)
  - 13% of all employees (14.6M workers; 1998 = 17.6M)
  - 15.5% of all payroll ($618B; 1998 = $709B)
- In Michigan (compared to 1998), manufacturing makes up:
  - 6.5% of all establishments (15.4k plants; 1998 = 16.2k)
  - 18.7% of all employees (730k workers; 1998 = 890k)
  - 23.3% of all payroll ($33.6B; 1998 = $40B)

Source: US Department of Commerce, Bureau of the Census

As Ever, Economists Don't Get It.

Rx: More "Krugman Conversions"

- Economists insist that job loss is "just" productivity growth, "just like in agriculture."
- Economists assume dollar's inevitable fall must re-equilibrate trade.
- Economists' conclusions are *completely predictable* based on neoclassical theory & their class outlook.
- But theory should guide search for data, not substitute for it.

Manufacturing Job Loss:
Just a Reflection of Welcome Productivity Growth?

Q. What Happens When US Manufacturers Buy Cheaper Inputs from Offshore?

$$\frac{VA}{FTE} = \frac{\text{Sales} - \text{Outside Purchases}}{\text{Employees} \times \text{Hours} / 2080}$$

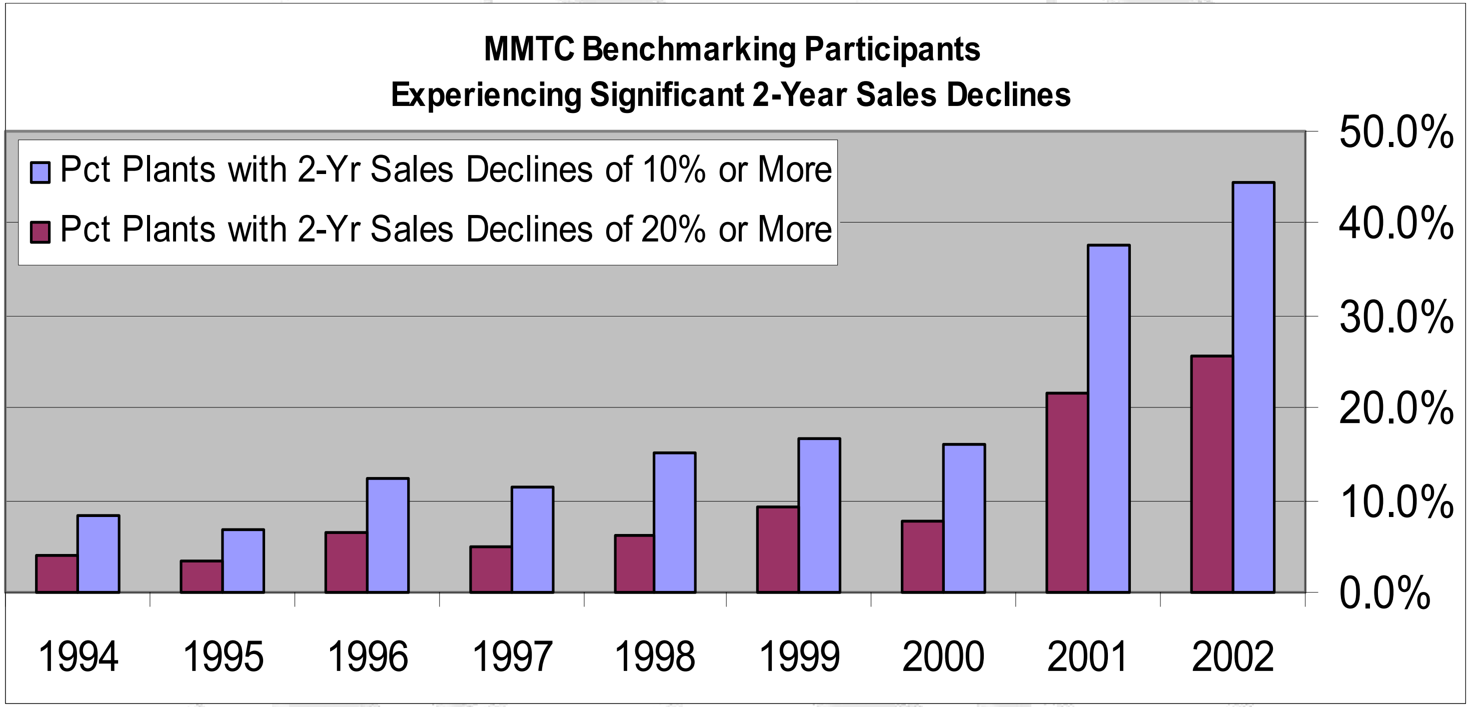
- **When purchased input costs go down, the NUMERATOR grows, making the RATIO rise.**

Manufacturing Output & Jobs: A 10-Year Look

	Mfg Output	United States	
Clinton-Gore Take Office	Jan-93	16,661,000	
Pre-Asian Financial Crisis Peak	Jun-98	17,708,000	
Pre-Recession Peak	Jun-00	17,403,000	
Bush-Cheney Take Office	Jan-01	16,993,000	
Latest Available Data	Jul-03	14,628,000	
Changes:			
Jan-93 - Jun-98	rising	1,047,000	6.3%
Jun-98 - Jan-01	rising	-715,000	-4.0%
Jan-93 - Jan-01		332,000	2.0%
Jan-01 - Jul-03	falling	-2,365,000	-13.9%
Jan-93 - Jul-03		-2,033,000	-12.2%

Exceptional *Sales* Declines

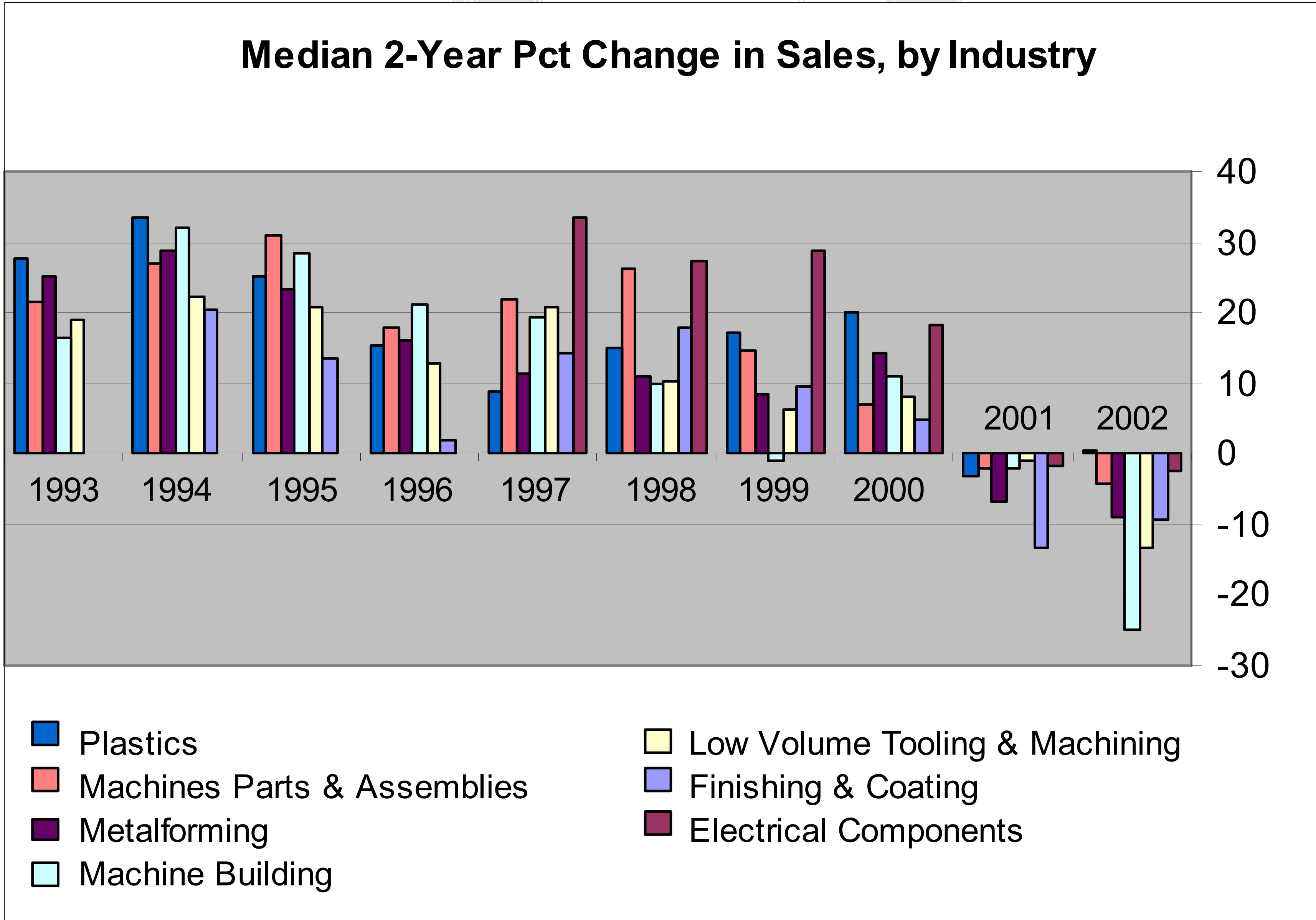
Michigan & Rest of Midwest About the Same as Elsewhere



- **44.3% of MMTC benchmarking participants had =10% sales decline from 2000 to 2002, worse than 1999-2001 (37.8%) and almost three times the historical pattern.**
- **25.7% reported declines of 20% or more, worse than 1999-2001 (21.8%) and also *three times* the level of previous two-year periods.**
- **Declines are broad, affecting all sectors, states, & plant size classes.**

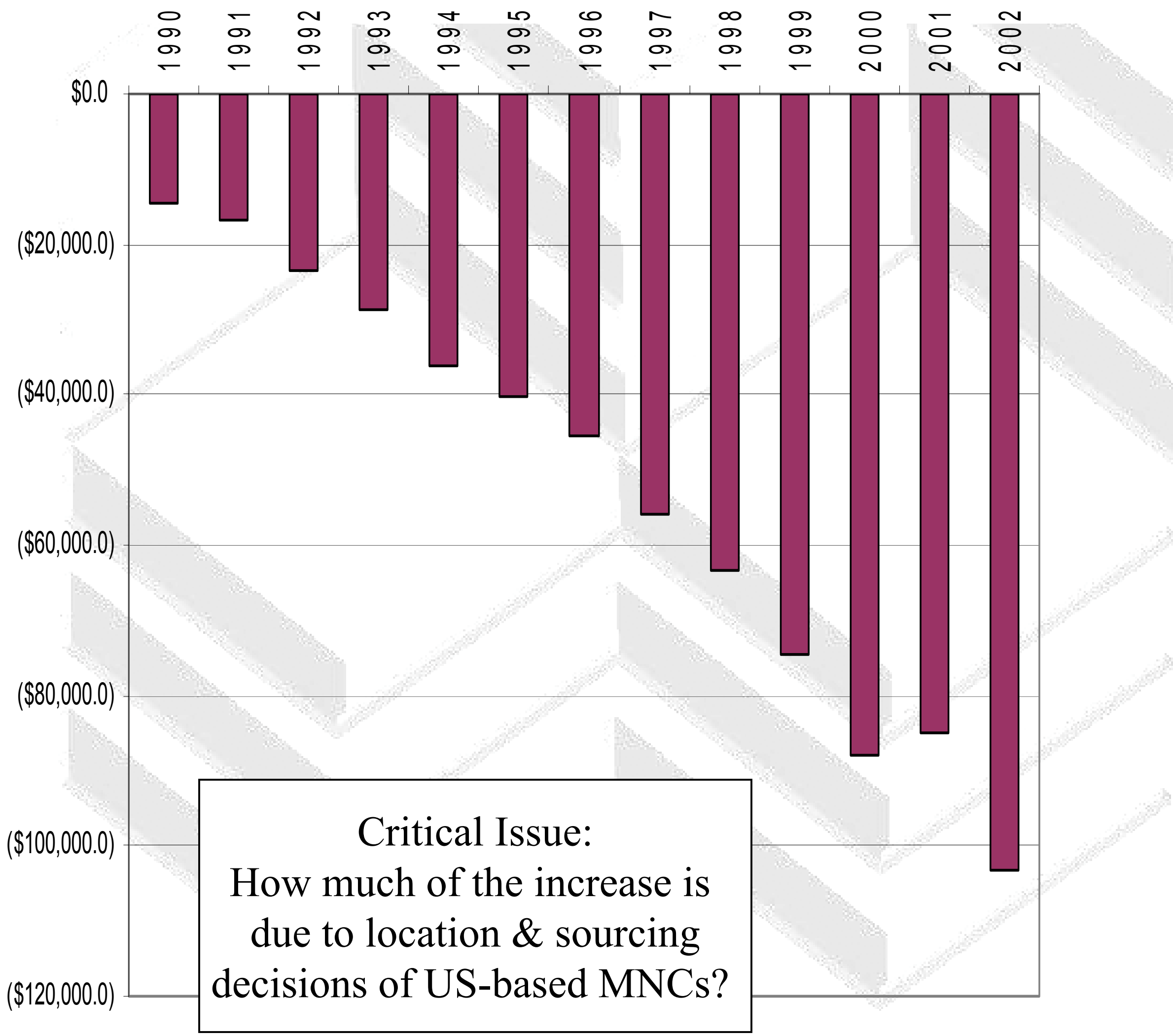
Sales Declines In Almost Every Sector

2000-02 Worse Than 1999-2001



U.S. Trade Balance with China

Inflation-Adjusted $Billions



Source: US Department of Commerce, Bureau of the Census, Foreign Trade Statistics

Suppliers Report Traditional U.S. Customers Relocating Work to Lower-Wage Areas

in 2/03 MMTC-Case Western survey of 250 smaller US manufacturers

Top customer relocating more manufacturing to regions where wages are lower …	**% Yes**
In the US and/or Canada?	25.5%
In Mexico or in Central or South America?	41.2%
In Eastern Europe?	15.6%
In Asia?	27.4%

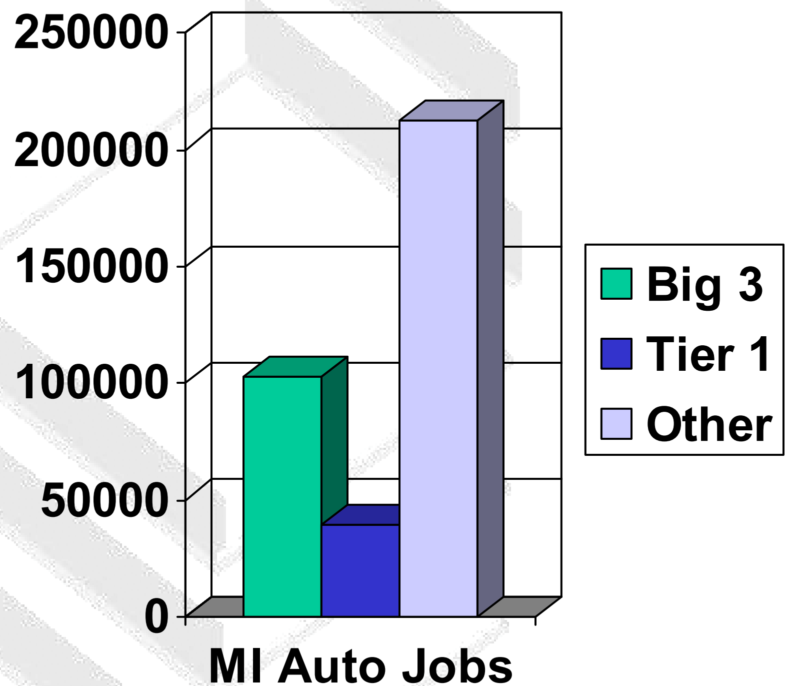
Michigan: Not Just Auto in Decline

Change in Big 3 Unit Sales: 1979-83 = -24%; 1999-03 = -14%

1978	1,033,800			Milliken
1979	1,093,700		Carter	
1980	952,000			
1981	884,000	-336,800		
1982	799,400			
1983	756,900			
1984	850,300		Reagan	Blanchard
1985	869,700	132,500		
1986	884,100			
1987	889,400			
1988	842,500			
1989	864,600	-96,400		
1990	837600		Bush I	
1991	793000			
1992	796300			
1993	805700			
1994	848400			
1995	873000	105,100		Engler
1996	866000		Clinton	
1997	873400			
1998	889900			
1999	898100			
2000	896700			
2001	819600	-171,500		
2002	759,100		Bush II	
8/03	726,600			Granholm

Michigan's New Auto Jobs Problem

- UAW has traded end of plant closing ban for easier supplier unionization.
- This is a smart bet for the UAW nationally.
- But Michigan is in line for many closings or plant sales.
- And Michigan, with a fairly low share of Tier 1 *hourly* jobs, will be a net loser. *Rx: FDI by transplant Tier 1s*



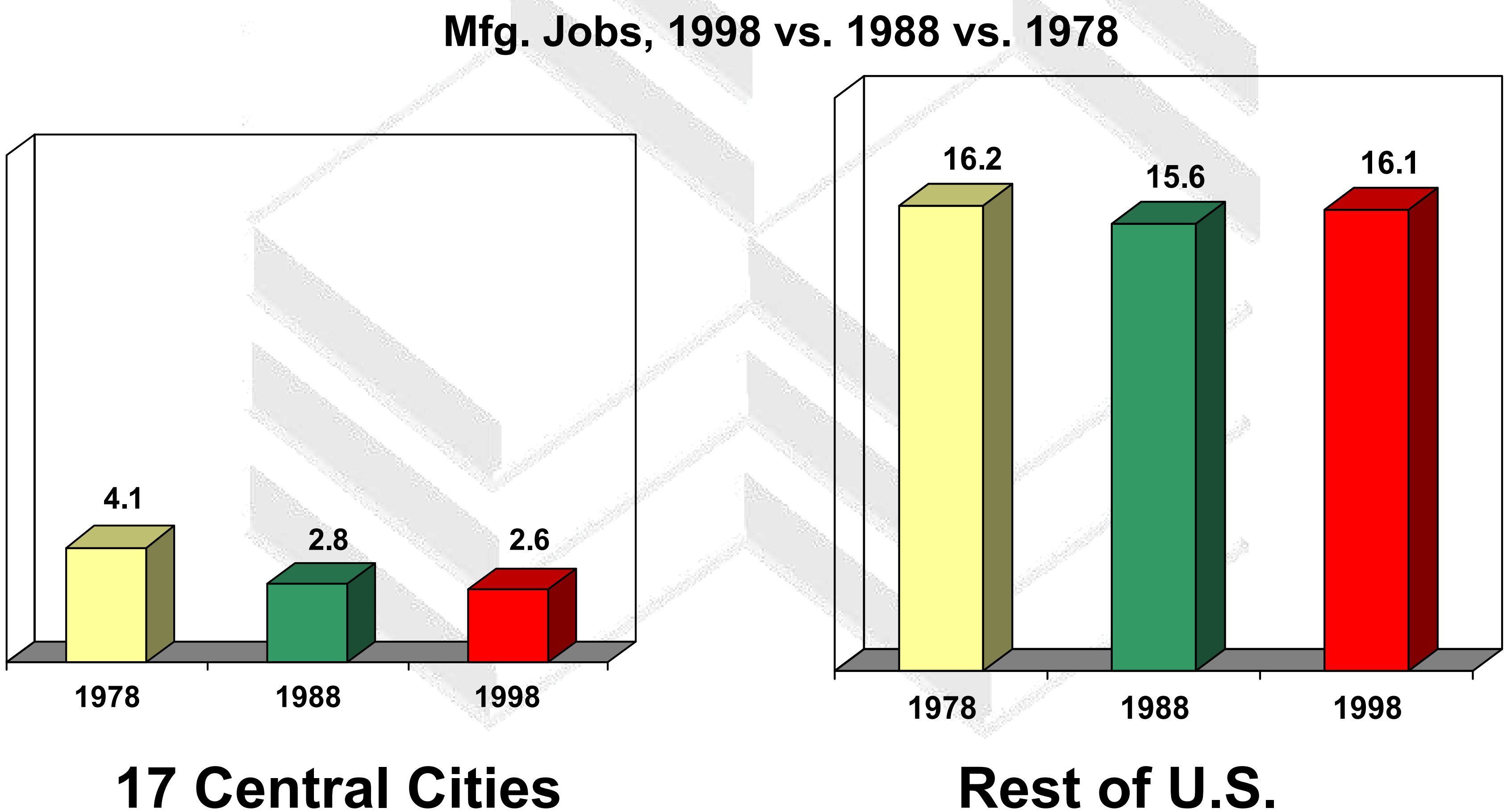
Michigan Now Tracking U.S.
after outperforming it 6/98-6/00

Political & Cycle Peaks & Troughs	Mfg Output	United States		Michigan	
Clinton-Gore Take Office	Jan-93	16,661,000		798,900	
Pre-Asian Financial Crisis Peak	Jun-98	17,708,000		894,900	
Pre-Recession Peak	Jun-00	17,403,000		912,000	
Bush-Cheney Take Office	Jan-01	16,993,000		842,800	
Latest Available Data *(preliminary*	Sep-03	14,556,000		723,000	
Changes:					
Jan-93 - Jun-98	rising	1,047,000	6.3%	96,000	12.0%
Jun-98 - Jan-01		-715,000	-4.0%	-52,100	-5.8%
Jan-01 - Jul-03	falling	-2,437,000	-14.3%	-119,800	-14.2%
Jun-00 - Sep-03		-2,847,000	-16.4%	-189,000	-20.7%

A Window of Opportunity?

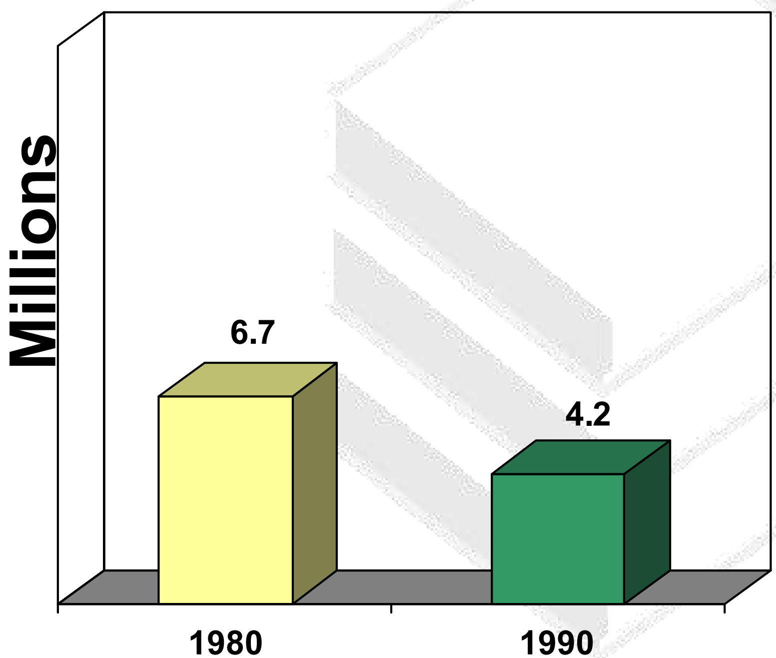
- The spreading reach of the problem widens the potential base for a solution.
- Within firms, this is *a tipping-point moment* for strategy, with medium-term irreversibility of choices now being made.
- That makes this a time when policy, whatever its limits, could matter a lot.
  - Federal: Mfg's profile up, & serious Rx's emerging
  - States: Dazed by deficits but getting serious about mfg
- *But first, some history (hint: Halle Berry's soliloquy in Bulworth was dead on) …*

Until 1998, "Deindustrialization" Was Concentrated in the Cities.

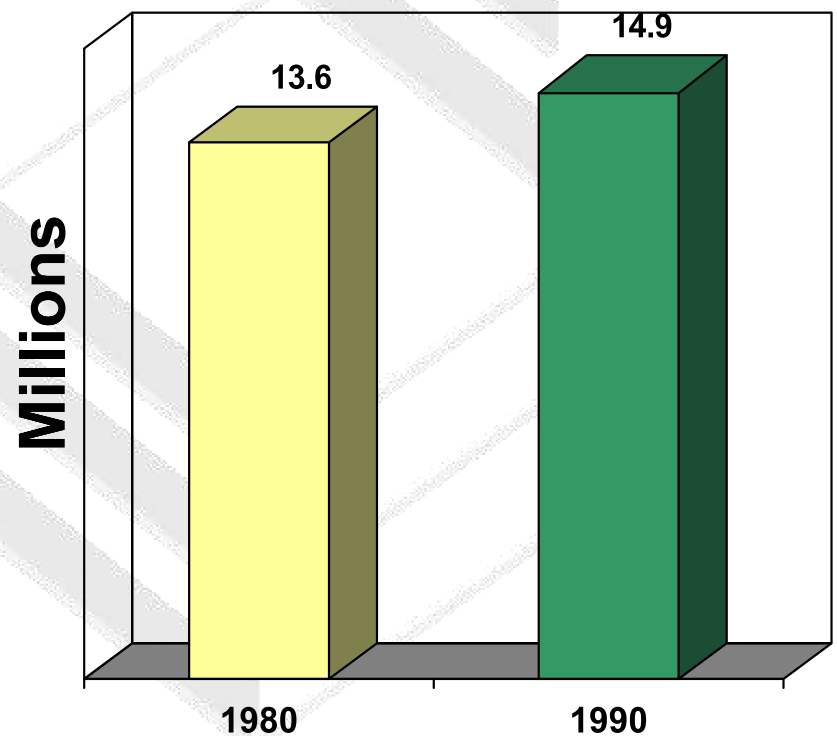


This Devastated Industrial Unions…

Mfg. Jobs, 1990 vs. 1980



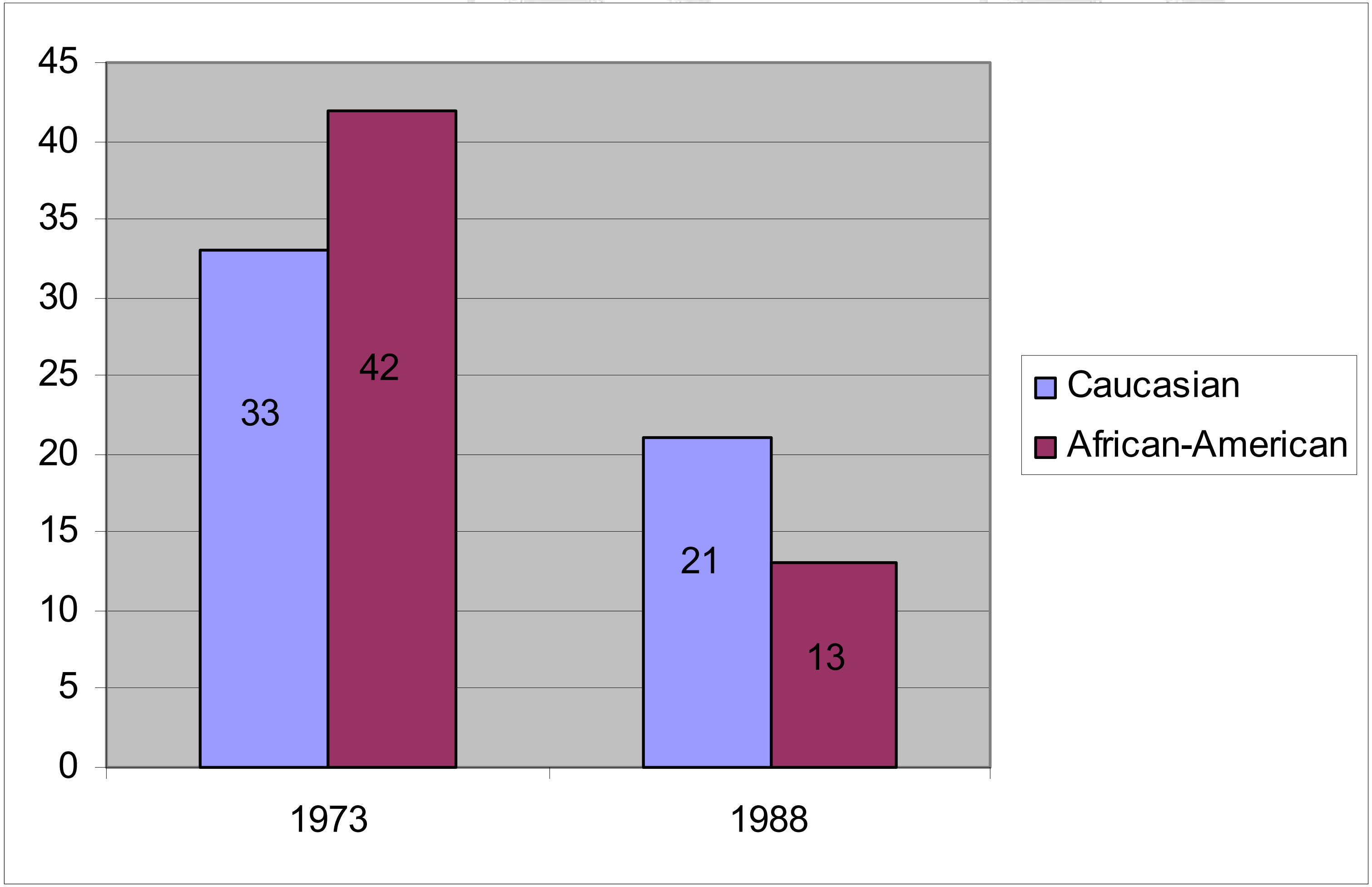
Union



Non - Union

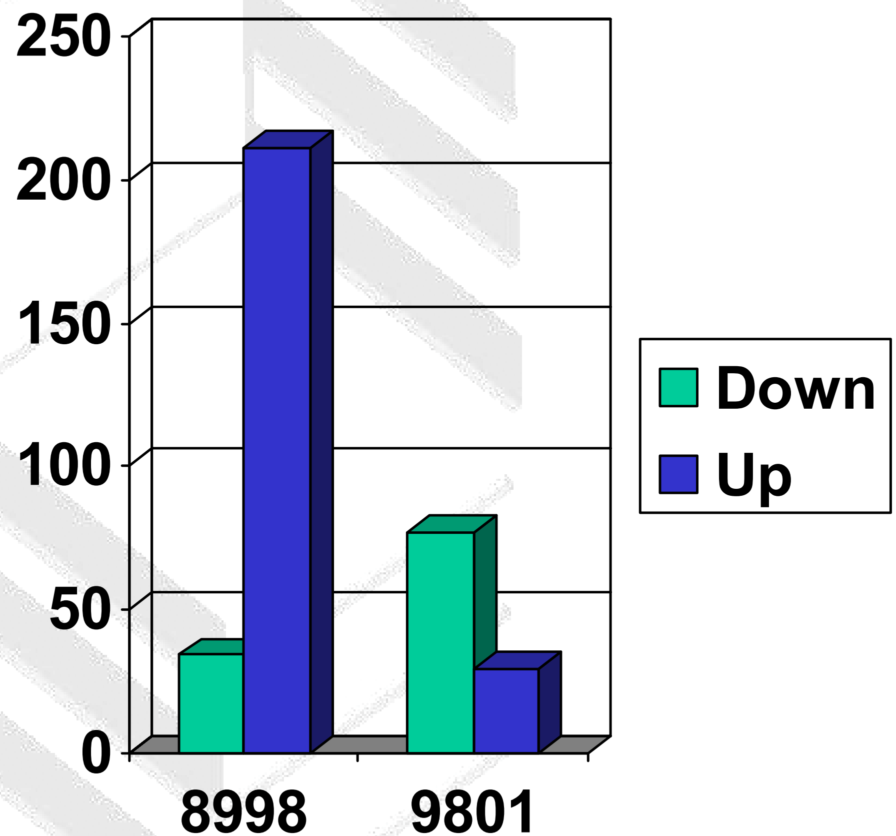
… and the Black Working Class.

Midwest Males Ages 18-54 Employed in Durable Goods Manufacturing, by Race, 1973 & 1988



But This Time, the Pain Has Spread.

- **1979-88: Some Cong. Districts (CDs) with large declines, but most CDs *gained* plants and jobs.**
- **1989-98 : 34 down =10%; 211 up**
- **1998-2001: 77 CDs down =10%; 329 down 0.1-9.99%; only 29 up**
- ***… and 2002 and 2003 worse than 2000.***



Few States or Cong. Districts Exempt

- More manufacturing plants in 2000 than in 1998 – 5 states (DE, ID, MT, ND, WY), totaling 6 CDs
- States with *no* CD with more plants – 12 (AK, CT, DC, IA, KY, LA, NJ, OK, RI, TN, VT, WV), totaling 59 CDs
- States with at least 3 times more CDs down than up – 20 (AL, AR, AZ, CO, FL, IL, KS, MA, **MI**, MN, MO, MS, NC, NY, OH, OR, PA, TX, VA, WA), totaling 255 CDs

Implication: There has to be a large and growing group of key members with big mfg declines in their districts.

Manufacturing's Crisis:
Finally Attracting Policy Attention

- Multiple House & Senate bills calling for:
  - Commerce Under- or Assistant Sec'y for Mfg
  - Closer monitoring of impact of trade pacts
- Lots of attention to China, esp. *yuan*-$ tie
- Serious parallel interest by Governors Granholm, Doyle
- Serious Michigan Dem Caucus plan … thanks to Sandy Levin & his staff … attempting to arm Dem presidential nominee

- **H**ealth Care: Medicare drug benefit/retiree costs
- **E**mployee Pension Reform: tie funding rate to corp bond index
- **L**evel Playing Field:
  - Close Corp tax loopholes
  - Fight currency manipulation
  - Make China follow WTO rules, or invoke remedies
  - Open mkts blocked by barriers
  - Use 201/301 remedies
  - Insist on labor standards
- **P**artnerships for Mfg
  - Preserve MEP & ATP
  - Support advanced vehicles

All of This Said, the Smart Money is Still on Deindustrialization.

- Short-term financial interests as perceived by US-based MNCs block action to restrict either FDI or captive imports. This reduces NAM program to calls for tax breaks & regulatory relief.
- Bizarre potential coalition against free trade – labor & the Christian right – has no legs.
- Elite opinion remains pro-free trade. Even insurgent e-candidacies like Dean's will need elite-controlled money for general election.
- Action, if any, will be *state & regional*.

The Real Fight Ticket:
Great Lakes Auto-Construction Eqpt-Machinery Region *vs.* the World

- Region has high, but falling, RPCs in components in these supply chains. *Rx: import substitution, world-class suppliers here*
- Region has low, and stable, RSCs in finished goods. *Rx: incent Big Three, transplants, Cat, Deere, Steelcase, others to produce here if they use in-region suppliers*
- Region's leaders are as prone as any to spend the "milk money" buying bio-hydrogen-nano "lottery tickets." *Rx: leverage fiscal crisis to force rethinking*