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?

\[
\frac{VA}{FTE} = \frac{Sales - Outside Purchases}{Employees \times Hours \div 2080}
\]

- When purchased input costs go down, the NUMERATOR grows, making the RATIO rise.
**Manufacturing Output & Jobs: A 10-Year Look**

<table>
<thead>
<tr>
<th></th>
<th>Mfg Output</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clinton-Gore Take Office</td>
<td>Jan-93</td>
<td>16,661,000</td>
</tr>
<tr>
<td>Pre-Asian Financial Crisis Peak</td>
<td>Jun-98</td>
<td>17,708,000</td>
</tr>
<tr>
<td>Pre-Recession Peak</td>
<td>Jun-00</td>
<td>17,403,000</td>
</tr>
<tr>
<td>Bush-Cheney Take Office</td>
<td>Jan-01</td>
<td>16,993,000</td>
</tr>
<tr>
<td>Latest Available Data</td>
<td>Jul-03</td>
<td>14,628,000</td>
</tr>
</tbody>
</table>

**Changes:**

<table>
<thead>
<tr>
<th></th>
<th>Mfg Output</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan-93 - Jun-98</td>
<td>rising</td>
<td>1,047,000</td>
</tr>
<tr>
<td>Jun-98 - Jan-01</td>
<td>rising</td>
<td>-715,000</td>
</tr>
<tr>
<td>Jan-93 - Jan-01</td>
<td></td>
<td>332,000</td>
</tr>
<tr>
<td>Jan-01 - Jul-03</td>
<td>falling</td>
<td>-2,365,000</td>
</tr>
<tr>
<td>Jan-93 - Jul-03</td>
<td></td>
<td>-2,033,000</td>
</tr>
</tbody>
</table>
**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

Median 2-Year Pct Change in Sales, by Industry

Sales Declines In Almost Every Sector 2000-02 Worse Than 1999-2001

Median 2-Year Pct Change in Sales, by Industry

-90%

-80%

-70%

-60%

-50%

-40%

-30%

-20%

-10%

0%

10%

20%

30%

40%

50%

60%

70%

80%

90%

100%

Plastics
Machines Parts & Assemblies
Metalforming
Low Volume Tooling & Machining
Finishing & Coating
Electrical Components
Machine Building
U.S. Trade Balance with China
Inflation-Adjusted $Billions


Critical Issue:
How much of the increase is due to location & sourcing decisions of US-based MNCs?

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

<table>
<thead>
<tr>
<th>Top customer relocating more manufacturing to regions where wages are lower ...</th>
<th>% Yes</th>
</tr>
</thead>
<tbody>
<tr>
<td>In the US and/or Canada?</td>
<td>25.5%</td>
</tr>
<tr>
<td>In Mexico or in Central or South America?</td>
<td>41.2%</td>
</tr>
<tr>
<td>In Eastern Europe?</td>
<td>15.6%</td>
</tr>
<tr>
<td>In Asia?</td>
<td>27.4%</td>
</tr>
</tbody>
</table>
### Michigan: Not Just Auto in Decline

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Unit Sales</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1978</td>
<td>1,033,800</td>
<td></td>
</tr>
<tr>
<td>1979</td>
<td>1,093,700</td>
<td></td>
</tr>
<tr>
<td>1980</td>
<td>952,000</td>
<td>-336,800</td>
</tr>
<tr>
<td>1981</td>
<td>884,000</td>
<td></td>
</tr>
<tr>
<td>1982</td>
<td>799,400</td>
<td></td>
</tr>
<tr>
<td>1983</td>
<td>756,900</td>
<td></td>
</tr>
<tr>
<td>1984</td>
<td>850,300</td>
<td>132,500</td>
</tr>
<tr>
<td>1985</td>
<td>869,700</td>
<td></td>
</tr>
<tr>
<td>1986</td>
<td>884,100</td>
<td></td>
</tr>
<tr>
<td>1987</td>
<td>889,400</td>
<td></td>
</tr>
<tr>
<td>1988</td>
<td>842,500</td>
<td>-96,400</td>
</tr>
<tr>
<td>1989</td>
<td>864,600</td>
<td></td>
</tr>
<tr>
<td>1990</td>
<td>837,600</td>
<td></td>
</tr>
<tr>
<td>1991</td>
<td>793,000</td>
<td></td>
</tr>
<tr>
<td>1992</td>
<td>796,300</td>
<td></td>
</tr>
<tr>
<td>1993</td>
<td>805,700</td>
<td></td>
</tr>
<tr>
<td>1994</td>
<td>848,400</td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>873,000</td>
<td>105,100</td>
</tr>
<tr>
<td>1996</td>
<td>866,000</td>
<td></td>
</tr>
<tr>
<td>1997</td>
<td>873,400</td>
<td></td>
</tr>
<tr>
<td>1998</td>
<td>889,900</td>
<td></td>
</tr>
<tr>
<td>1999</td>
<td>898,100</td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>896,700</td>
<td>-171,500</td>
</tr>
<tr>
<td>2001</td>
<td>819,600</td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>759,100</td>
<td></td>
</tr>
<tr>
<td>8/03</td>
<td>726,600</td>
<td></td>
</tr>
</tbody>
</table>

Carter

Milliken

Reagan

Blanchard

Bush I

Engler

Clinton

Bush II

Granholm
• 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

<table>
<thead>
<tr>
<th>Political &amp; Cycle Peaks &amp; Troughs</th>
<th>Mfg Output</th>
<th>United States</th>
<th>Michigan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clinton-Gore Take Office</td>
<td>Jan-93</td>
<td>16,661,000</td>
<td>798,900</td>
</tr>
<tr>
<td>Pre-Asian Financial Crisis Peak</td>
<td>Jun-98</td>
<td>17,708,000</td>
<td>894,900</td>
</tr>
<tr>
<td>Pre-Recession Peak</td>
<td>Jun-00</td>
<td>17,403,000</td>
<td>912,000</td>
</tr>
<tr>
<td>Bush-Cheney Take Office</td>
<td>Jan-01</td>
<td>16,993,000</td>
<td>842,800</td>
</tr>
<tr>
<td>Latest Available Data <em>(preliminary)</em></td>
<td>Sep-03</td>
<td>14,556,000</td>
<td>723,000</td>
</tr>
</tbody>
</table>

**Changes:**
- Jan-93 - Jun-98 rising: 1,047,000 6.3% 96,000 12.0%
- Jun-98 - Jan-01 falling: -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 falling: -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)* …


17 Central Cities


4.1 2.8 2.6

Rest of U.S.


16.2 15.6 16.1
This Devastated Industrial Unions…

… 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

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

- Health Care: Medicare drug benefit/retiree costs
- Employee Pension Reform: tie funding rate to corp bond index
- Level 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
- Partnerships 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*