

Manufacturing a Better America

Testimony of Richard W. Bloomingdale, President, Pennsylvania AFL-CIO
Joint Economic Committee, United States Congress
September 21, 2011

Thank you Chairman Casey, Vice- Chairman Brady, and other committee members. It is an honor for me to testify today about very important subjects that affect Pennsylvania's and America's workers.

I know you will have many experts testifying today about trade, the Trade Adjustment Act and Chinese currency issues. And I hope you will listen and decide on a course that puts Americans back to work. While I am not a scholar, I have traveled around Pennsylvania for a quarter century talking to current workers, to laid off workers, and to business leaders, many of whom wonder why our policies seem to reward outsourcing and not hiring Americans. I have also collaborated with employers and policymakers to try to address the challenges of Pennsylvania manufacturing in a global economy.

In my written testimony today, I will address three issues.

First, this country does not have a manufacturing policy and it needs one. In the absence of a national policy, Pennsylvania has over five administrations taken some steps towards developing its own manufacturing policy. However, one especially important component of manufacturing policy—trade policy—must be addressed at the national level. Manufacturing policy **MUST** include much more forceful approaches to stem the loss of jobs due to massive trade deficits.

Second, American needs to invest in a strong adjustment system for all dislocated workers, starting with those who lose their jobs because of trade.

Third, I address the role of unions in the revival of our manufacturing sector.

1. The United States Needs a Manufacturing Policy. My first point is one which Senator Casey himself has been making, including through the hearings of this committee. The basic idea is simple: over the past 50 years, the United States has gone from being the world's dominant economic power, with low levels of manufacturing imports and a manufacturing trade surplus, to being part of an intensively competitive global economy and to having a huge trade deficit.¹

During this unprecedented transition, the United States—in contrast to competitor nations such as Germany—has never had a comprehensive approach to helping its manufacturing businesses and workers succeed in new conditions. The lack of a manufacturing policy is part of why the United States manufacturing sector, by most measures linked with the strength of manufacturing, has performed poorly. Beyond the trade deficit, other measures include:

- exports as a share of GDP—the U.S. export share is lower than most other advanced countries;
- the manufacturing share of total employment—this share has declined in most countries, but it has declined more in the United States because of the lack of a manufacturing policy;
- wages—manufacturing wages have stagnated in the United States;
- productivity growth—measured by output per hour, the U.S. has lost the productivity advantage it once had in virtually every industry. In many industries, the United States is no longer the global leader; and

¹ The U.S. imported \$771 billion in manufacturing products in the first half of this year, and had a deficit of \$213 billion (<http://www.post-gazette.com/pg/11233/1168582-435-0.stm#ixzz1YRSgVfMC>).

- innovation—the recent report of the President’s Science and Technology Advisors documents the growing vulnerability of the U.S. position in manufacturing innovation.²

The decline of manufacturing in the United States is NOT a natural result of the U.S. being a high-wage country in a world in which developing countries now have competitive manufacturing sectors. Many other high-wage countries—such as Germany—have large trade surpluses. (To see the remarkable divergence between the U.S. and German trade experiences, see the online graphic at <http://www.cfr.org/world/motion-chart-global-imbalances/p18962>. German exports as a share of GDP equal nearly 50% and are even higher than China’s. Germany’s current account balance is 8% versus minus 5% in the United States. Japan also has a trade surplus.)

In the context of a vacuum at the federal level, Pennsylvania has, on its own, implemented elements of a manufacturing policy under the past five administrations, three Republican and two Democratic.

- In the deep recession of the early 1980s, under Governor Richard Thornburgh, Pennsylvania established the Ben Franklin Technology Partnership to accelerate the transfer of ideas from academic research institutions (e.g., Carnegie Mellon in Pittsburgh, Lehigh University in Bethlehem, or Drexel in Philadelphia) to the private sector.
- In the late 1980s, with guidance from business and labor leaders, Senator Casey’s father established “Industrial Resource Centers” (or IRCs), which provide low-cost consulting to small and medium-sized enterprises (e.g., on how to improve efficiency or quality). The IRCs became a model for the “Manufacturing Extension Partnerships” scaled up nationwide by the Clinton Administration. The concept of the “MEPs” was to provide assistance analogous to the “agricultural extension” that had helped give the United States the most productive agriculture sector in the world.
- Under Governor Rendell, in response to pressure from the United Steel Workers and others faced with manufacturing job losses from 1998-2003, Pennsylvania implemented a multi-dimensional “manufacturing strategy.” This strategy included:
 - Investment in training consortia (called “Industry Partnerships” in Pennsylvania) that help plug the skill gaps of key manufacturing industries;
 - the expansion statewide of a Southwest Pennsylvania program (the Strategic Early Warning Initiative) that identifies manufacturing companies in trouble before it’s too late and, if jobs can be saved, designs services (e.g., process improvement consulting, financing, worker training) to avert layoffs;
 - the establishment of a trade office in Washington aimed at giving smaller businesses in our state—companies too small to afford \$400 per hour lawyers—some access to U.S. trade laws;
 - a new manufacturing innovation initiative—“Keystone Innovation Zones”—which networks engineering and research faculty in higher education with companies that welcome assistance with problem-solving linked to process improvement and new product development; and, later,
 - Pennsylvania’s 2004 “Advanced Energy Portfolio Standard” (followed by the 2008 Alternative Energy Investment Fund (AEIF)) which reserved a portion of future electricity markets for generation from renewables and other advanced energy sources, including wind and solar.

² For evidence, see President’s Council of Advisors on Science and Technology, *Report to the President on Ensuring American Leadership in Advanced Manufacturing*, online at <http://www.whitehouse.gov/sites/default/files/microsites/ostp/pcast-advanced-manufacturing-june2011.pdf>

Governor Rendell framed his manufacturing strategy as a response to analysis showing too many Pennsylvania manufacturers stuck in “commodity markets” with low margins—i.e., selling standard products that low-wage countries can produce for lower cost.³ As a result, he provided additional resources to Pennsylvania’s IRCs so that they could help companies develop business strategies that focused on non-commodity markets in which price pressure is less intense.

Since 1994, Pennsylvania’s manufacturing employment has stopped declining faster than that of the nation. Since early 2010, the state’s manufacturing jobs have actually started to increase, as they have nationally. Pennsylvania’s efforts, however, have been hampered by a lack of resources for the efforts listed above. They have also been hampered by the continuing and disproportionate burden on U.S. manufacturers of health-care costs. Lastly, manufacturers have been hampered by one of the key issues under discussion today—U.S. trade policy.

The Need for More Balanced Trade: One central component of a manufacturing policy MUST BE new trade policies that ensure a move toward more balanced trade. Our trade policy—misabeled as Free Trade—is not Fair Trade and has caused the flight of millions of good paying jobs. (If it was really “free trade” you wouldn’t need large, fat books containing all of the detailed rules agreed to in each trade negotiation.) All you have to do is look at the Alliance for American Manufacturing web site (www.americanmanufacturing.org) to see how the jobs have flown.

Our current trade policies are justified based on a theory that sounds good on paper but fails to capture the way the economic integration process is actually working. Most importantly, most countries have policies that aim to protect their citizens and their economy, whereas our policy protects investors, whether they are citizens or not.

Let’s take NAFTA as an example. NAFTA was sold to us as a trade deal that would bring hundreds of thousands of jobs to Pennsylvania and the United States. All we have seen is the continuing decline of manufacturing and growing trade deficits with both Mexico and Canada. Given that the U.S. priorities in NAFTA negotiations were protections for U.S. multinationals’ investments and intellectual property in Mexico, the results of NAFTA were surprising only to free-trade economists.⁴

NAFTA is only one example of trade policies that have undermined America’s middle class. Just yesterday, the Economic Policy Institute released a new update on the impact of our current trade policies towards China.⁵ Since China entered the World Trade Organization in 2001,

³The Rendell manufacturing strategy is described in: Manufacturing Working Group of the Economic Development Cabinet, *Manufacturing Innovation A Strategy to Enhance the Competitiveness of Pennsylvania Manufacturers*, Harrisburg, December 2004. The study for Pennsylvania’s Industrial Resource Centers that first made current the idea that too many manufacturers in the state are stuck in commodity markets was: Deloitte Consulting, *Manufacturing Pennsylvania’s Future: Regional Strategies that Build from Current Strengths and Address Competitive Challenges* (Harrisburg: Team Pennsylvania Foundation, January 2004.). Online at <http://www.newpa.com/build-your-business/key-industries/advanced-manufacturing-materials/manufacturing-research-reports>.

⁴The one major Congressional study of NAFTA foretold the negative impacts of a narrow free-trade agreement focused on protections for investors. Unfortunately, Congress failed to heed to guidance of this study. See United States Congress, Office of Technology Assessment, *U.S.-Mexico Trade: Pulling Together or Pulling Apart*, Washington DC, September 1992, online at www.fas.org/ota/reports/9241.pdf.

⁵Robert E. Scott, *Growing U.S. Trade Deficit With China Cost 2.8 Million Jobs Between 2001 and 2010*, Washington, D.C., Economic Policy Institute, online at <http://www.epi.org/publication/growing-trade-deficit-china-cost-2-8-million/>. For additional analysis of the impact of trade on jobs in Pennsylvania, see <http://www.citizen.org/Page.aspx?pid=3427>.

- the trade deficit with China eliminated or displaced 2.8 million jobs, 1.9 million (69.2 percent) of which were in manufacturing;
- in Pennsylvania alone, the trade deficit with China eliminated or displaced 107,000 jobs.
- In both Pennsylvania and the nation, the manufacturing jobs eliminated or displaced due to trade with China represent *nearly half* of all U.S. manufacturing jobs lost or displaced between China's entry into WTO and 2010.
- In both Pennsylvania and the United States, the manufacturing jobs lost or displaced between China's entry into WTO and 2010 represented almost 2% of total employment (1.84% in Pennsylvania and 1.97% in the United States).
- Particularly unnerving, global trade in advanced technology products—ostensibly the “comparative advantage of the United States”—is now dominated by China. In 2010, the United States had a \$94.2 billion deficit in advanced technology products with China, which was responsible for 34% of the total U.S.-China trade deficit. The United States had a \$13.3 billion surplus in Advanced Technology Products with the rest of the world in 2010.

As EPI's brief explains, currency manipulation by China is a major cause of our trade deficit. While other currencies fluctuate freely against the dollar, China has tightly pegged its currency to the U.S. dollar at an exchange rate that maintains a large bilateral surplus with the United States. China maintains this policy by aggressively buying dollars while selling its own currency. EPI estimates this undervaluation at 28.5% of the U.S. dollar, even after recent appreciation in the yuan. Worse, China's currency manipulation leads other countries to follow similar policies to maintain their relative competitiveness and promote their own exports. Full revaluation of the yuan and other undervalued Asian currencies, EPI estimates, would create up to 2.25 million U.S. jobs, and lower the federal budget deficit by up to \$857 billion over 10 years.

And recently at a meeting with representatives of the Chinese Wind Industry and Government officials I was told that I was the first American they had heard who said we want to bring manufacturing back to the US. Everyone else, I was told wanted to manufacture in China. I hope they were just being polite.

The Importance of Trade Adjustment Assistance and Worker Retraining. For decades, one of the few trade-related policies on which broad consensus existed was the idea that workers displaced due to imports should receive income support coupled with access to training. Currently, TAA provides up to two years of income support plus a health-care tax credit and relocation assistance to take a new position. It also provides up to three years of training. The combination of training and long-term income support is universal for dislocated workers in most other advanced countries, independent of how they lost their job. This combination provides “a trampoline” that bounces re-skilled workers back into a good job rather than simply a safety net.

The U.S. broadened eligibility for TAA under the ARRA, expanding funds for training and allowing service workers to be certified as trade-impacted along with workers in supply chains upstream and downstream from directly impacted jobs. Now Congress has reverted to the narrower program (which dates back to 2002). This narrower program is currently set to expire in February 2012. Moreover, some voices suggest eliminating TAA.

The underlying thrust of the current discussion is that there is nothing special about trade-impacted workers so that we should give them no more support than other workers—i.e., we should give trade-displaced workers only unemployment insurance and the limited assistance with job search and

training that is available under the Workforce Investment Act. The first problem with this thinking is that the support we give workers generally is inadequate. Even in a state such as Pennsylvania which has more generous benefits than most states, workers who actually receive unemployment benefits replace only about half their lost wages, on average. Moreover, as a recent report by the Pennsylvania Department of Labor and Industry documents, the long-term economic and social costs of joblessness to families are far higher than just the immediate loss of income.⁶ At best, unemployment insurance is like having car insurance which, if you have an accident, you receive at most half the money you need to fix your car and no help with any other costs (e.g., health care costs because you get injured).

It would be particularly unfair for workers displaced by trade to receive only this inadequate assistance. The reason is that trade-displaced workers lose their jobs as a direct result of U.S. trade policies. For decades, moreover, the understanding has been that, if trade generates overall gains (leaving aside, for the moment, whether it actually does), some of those gains should be used to compensate workers displaced by trade.

In sum, weakening or eliminating TAA would polarize debates about trade policy even more. Instead, we should be looking to give all dislocated workers the level of support enjoyed by those who are trade-displaced. Countries with these kinds of active labor market policies—such as Denmark—do a much better job than the United States at providing employers with the skills they need. Smart and generous TAA policies can similarly be a key part of America’s re-skilling efforts. When people are unemployed for an extended period following the loss of a long-term job, it makes no sense for the “norm” to be that workers simply receive income support: we should also enable workers to enter long-term training programs that allow them to acquire occupational credentials for jobs in demand that will support a family.

But most importantly what we have heard from recipients of TAA is that they want to be trained for jobs that exist now so they can get back to work. That is why it is essential that we work with local business organizations to determine what skills they need so we can get people to work. For instance while working with the Manufacturers Association of South Central Pa. on workforce development we found that small machine shops were in need of trained machinists and tool and die makers. Unfortunately those small businesses don’t have the resources to do their own training so we tried to find some state and federal funds to help get people trained. One of the biggest improvements we could make to all training programs is matching needs with training.

The Role of Unions in the Revival of the U.S. Manufacturing Sector. In the last part of my testimony, I want to revisit the issue of the future of U.S. manufacturing and consider the role of unions in that revival. In so doing I recognize that I will expand the discussion of U.S. manufacturing policy beyond the boundaries of conventional “inside the Beltway” discussion. That seems to me a good thing to do.

It is widely recognized that unions played a critical in the U.S. manufacturing sector from the 1930s to the 1970s. One of the key roles of unions was to bargain for wage increases loosely tied to the 3% annual growth of productivity in manufacturing. These wage gains ensured that middle-class buying power kept pace with how much more output our powerful manufacturing economy could produce

⁶ Stephen Herzenberg and Mark Price, *A Profile of Pennsylvania’s Unemployed People*, Pennsylvania Department of Labor and Industry, Center for Workforce Information and Analysis, online at <http://www.portal.state.pa.us/portal/server.pt?open=514&objID=780674&mode=2>.

each year. As long as wages grew with productivity, consumption demand would grow and we would avoid another downward economic spiral such as the Great Depression.

At least since the 1980s, however, there has been a general tendency to see unions as no longer a positive force for U.S. manufacturers and U.S. manufacturing. Some critics have tried to blame unions for the decline of U.S. manufacturing. Leaving aside these debates about the past, as union density in manufacturing has declined it has become untenable to claim that unions are the source of the problems of the U.S. manufacturing sector.

Rather than just point out that unions are not “the problem” in U.S. manufacturing, I want to go further. I point below to four critical ways in which unions are once again poised to become a key part of the *solution* for U.S. manufacturing.

(i) First, the United States now has a widely recognized skill shortage in manufacturing. In my view, only a revival of skill-based manufacturing unions can provide the long-term solution to this shortage.⁷ Let me explain why this is the case. One of the reasons for the U.S. skill shortage in manufacturing is that relative wages in manufacturing have fallen over time. Manufacturing does still have a wage advantage compared to other sectors: for example, workers without a college degree, especially in rural areas, earn more in manufacturing than in other sectors. But the manufacturing wage advantage has fallen over time. Moreover, a range of new technical jobs that compete with manufacturing for young workers have emerged in information technology, biotechnology, health care labs, services (e.g., copier and auto repair) and maintenance jobs throughout the economy. For many young workers, technical jobs outside manufacturing have a more “high tech” feel, and more apparent autonomy and freedom from close supervision, than manufacturing jobs.

Another reason for the manufacturing skill shortage is that labor-management apprenticeship programs that did exist in the 1960s and 1970s have declined. The decline of apprenticeship is a symptom of the general unwillingness of manufacturers to invest in non-supervisory workers. Over the next decade, manufacturers must find a way to invest more in their workers because of the increased premium on skills, high rates of retirement, and the first employment expansion in manufacturing in a dozen years.

What institutional solutions exist that could address these multiple roots (declining relative wages, underinvestment in workers, autocratic supervision and lack of autonomy on the job) of skill shortages in manufacturing? The most obvious solution would be a revival of manufacturing unionism that draws heavily on the traditions of craft unionism. That type of revival would increase investment in workers and raise wages and benefits so that manufacturing can compete for the most talented young people. Also important, a revival of manufacturing unions could ensure that workers have the voice and dignity on the job that helps attract and retain workers.

(ii) A second role of skill-based manufacturing unions could be to help invigorate innovation in America, including in “new markets” spawned by ongoing technological innovation (e.g., robotics) and the emergence of the clean economy. The Pennsylvania AFL-CIO is currently developing a partnership with some of Pennsylvania’s great engineering universities to use highly-skilled unionized workers to provide new technology spin-offs with the skills they need to commercialize new products

⁷For an analysis of shortages in two occupational clusters, with a focus on Pennsylvania but also some national data, see Stephen Herzenberg and Mark Price, *Critical Shortages of Precision Machining and Industrial Maintenance Occupations in Pennsylvania's Manufacturing Sector*, report written for the Leadership Council of the Pennsylvania Center for Advanced Manufacturing Careers, online at http://www.paworkforce.state.pa.us/portal/server.pt/community/pa_center_for_advanced_manufacturing_careers/18909

and grow. Harking back to the strengths of building trades unions, unionized manufacturing workers often have the highest skills and unions can build on this advantage to help support the rebirth of the nation's manufacturing sector.

(iii) A third critical role of unions is to “block the low road”—make it harder for companies to compete using low-wage strategies that are a dead end for America because low-wage countries can always beat us at this game. The irresistible lure of the low road—and the continuing importance of unions blocking that path—have been driven home by a recent incident at the Hershey company in Central Pennsylvania. If any company might have been able to resist the low road, it is Hershey. The company is in a continuous process industry which is highly capital intensive and so labor costs are a small fraction of total costs. The company has a family friendly brand that is critical to sales and potentially threatened by bad publicity about worker exploitation. And, most unusual, a trust formed to benefit a school for underprivileged children holds a controlling interest in the company.

Despite these features, Hershey has pursued low-wage strategies with increasing creativity. It first shifted some production to single product non-union plants (e.g., to make Reese's pieces). It then moved some operations to Mexico. Most recently, in a packaging plant owned by a sub-contractor, Hershey relied on foreign students who paid several thousand dollars each for the privilege of participating in what they understood to be a “cultural exchange” visit to the United States. These students then found themselves packaging Hershey candy for about \$8 per hour (not counting the upfront fee for the program and before you subtract the living costs taken out of the students' paychecks).

I raise this story here not simply—or primarily—to bemoan worker exploitation. I raise it to suggest that the absence of constraints on this type of company behavior undermines the capacity of the U.S. to compete based on skills and innovation. I explained why in an op ed in the *Philadelphia Inquirer* (online at http://articles.philly.com/2011-09-01/news/30029392_1_wages-hershey-foods-foreign-students). When companies isolate workers—in separate plants, in Mexico, or in subcontractors—away from higher-paid workers in order to cut labor costs, they cut the lower-wage workers out of cooperative efforts to increase productivity, quality, and innovation. Companies also foreclose the potential for performance improvement that cuts across product plants and suppliers upstream and downstream. Recall that labor-management cooperation and assembler-supplier cooperation are understood to be the central reason that Japanese automakers have enjoyed a competitive advantage: short-changing these types of cooperation is a major impediment to performance improvement. Last, within the United States, unprecedented inequality results from the co-existence of low-road strategies and higher-wage “high road” strategies pursued more privileged workers. High levels of inequality create polarized societies that often cannot muster the political will to invest adequately in the education and skills of people generally, or in infrastructure, research, and innovation. (Extreme inequality also undercuts intergenerational mobility—i.e., it kills the American Dream.)

Summing up, beyond its impacts for society and for our democracy, companies' freedom to pursue the low road undercuts the long-term performance of the U.S. manufacturing economy. That's why I suggested in the *Inquirer* that we need “network” unions that cut across companies entire supply chains. “Network” unions would generate long-term economic benefits for the U.S. because companies would be able to pursue productivity enhancing strategies with all their workers and through cooperation among plants at different points in the production chain. The boost these unions would give to the middle class would also make it easier to achieve political consensus on the need to invest in public goods (education and skills, infrastructure, innovation) vital to all manufactures.

(iv) The final reason that unions are critical to the revival of the U.S. manufacturing sector—and to the stability and growth of the global economy—is that they can help make sure middle-class wages keep pace with the massively increased productive capacity of the global economy. This role is simply an updating of the argument—circa the 1930s—about collective bargaining helping to lift us out of the Great Depression (and keep us out). Today, the “broken link between wages and productivity growth” that has accompanied the globalization of manufacturing means that countries such as China and Mexico do not have high enough wages to consume their own manufacturing output. That’s why they have to sell so much to us. Union revival here—and union growth in our trading partners in which wages lag productivity growth—can get us to a Global New Deal.

As it stands, U.S. trade policies have made no effort to ensure that trade expansion is accompanied by rising wages in developing country trading partners. In a sense what we have done in the United is pursue a policy path that stifles demand. We don’t see demand rising fast enough overseas and we don’t see it rising here because more manufacturing jobs are going overseas. When that happens, we lose the other jobs—at suppliers and at consumer service companies—that depend on manufacturing jobs. At the end of the day, we have to make something, we can’t just be a nation of sellers—we cannot just take in each other’s laundry.

I believe one of the best ways to revive U.S. manufacturing is with the help of labor unions that have a central role in skill development and innovation. To distill my point to a sentence: we can’t get to the high road in American manufacturing—and we can’t rebuild the American middle class—without the help of broadly based high-road manufacturing unions.

