EXECUTIVE SUMMARY
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Does Manufacturing Matter?

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EMR Issue: Volume 31 number 3, Third Quarter 2003, pp. 3-10
Reprinted from: ***Challenge***

Abstract:
Manufacturing does still matter. It is important to safeguard the American position of economic leadership and to ensure the prosperity of American workers and make a concerted effort to inject some vitality into this national asset.

Keywords:
Nontariff barriers

Executive Summary:

The Manufacturing Sector's Unsustainable Decline:
Recent trends have shown that America has been deindustrializing. By international comparison, the current low level of manufacturing in the U.S. For example, Germany's manufacturing accounts for 21 percent of its GDP. The United States is about 16 percent. Of course, related to this is the mushrooming trade deficit. The loss of manufacturing production means that domestic demand must be met by imports. The trade deficit is closely related to the current account of the U.S. balance of payments. As trade deficit grows, so does the current account deficit, which has reached 3.9 percent of U.S. GDP. The mounting manufacturing trade deficit is fast pushing the current account deficit to crisis levels.

The Economic Importance of Manufacturing:
A strong manufacturing sector creates a broad foundation on which the rest of the economy grows. Manufacturing production and the workers they employ generate demand for other manufactured goods. But manufacturing importance exceeds even that simple multiplier effect. Manufacturing also drives supply growth by generating innovation and disseminating new technologies throughout the economy. Hence, the decline in manufacturing may hurt U.S. chances for continues growth in the medium to long term.

Economic Depth:
Manufacturing industries require more intermediate goods and services than other industries. The heavier the industry, the greater the economic depth created by manufacturing. The loss of manufacturing jobs and domestic production means the loss of depth created by manufacturing industries. The slack in Job Creation is not likely to be picked by the service-producing sector of the economy. Research indicates that service industries are linked to manufacturing geographically. AS manufacturing moves overseas, so will the service jobs that complement manufacturing.

Productivity Growth:
Historically, the manufacturing sector has been behind driving productivity growth and the U.S. economy. With manufacturing productivity generating U.S. economic dynamism, concerns were raised about what will serve as a vehicle for economic growth in the future, given U.S. deindustrialization. Evidence suggests that productivity in manufacturing industries will continue to be the driving force behind economic growth.

Manufacturing Jobs and Wages of U.S. Workers:
Manufacturing jobs pay better wages and benefits and provide positive labor market outcomes for workers employed in not only manufacturing but in other industries. The effects of U.S. deindustrialization are

then not limited to displaced manufacturing workers but are also felt by U.S. workers employed outside manufacturing.

The Visible Hand of Manufacturing Decline:
A pattern by U.S. policymakers has given priority to other economic interests over the interests of manufacturing without regard for their negative effects on U.S. workers and economic well being. Manufacturers are placed in a disadvantaged environment due to trade policy and the like.

Trade Policy:
American trade policy itself has encouraged deindustrialization in a variety of ways. The increased of regional, bilateral and multilateral trade-liberalization agreements throughout the 1990s has reduced tariffs across the board in most countries. In many ways, the United States has backed itself into a corner with trade policy. Though American manufacturers face stiff nontariff barriers abroad, America imposes virtually no tariff or nontariff controls on manufactured imports. Other trade policies are also contributing to the demise of U.S. manufacturing. One such example is the Export-Import Bank (Ex/Im) created in 1934 by Congress. It has become a tool for subsidizing the export of manufacturing capacity and jobs that compete directly with American workers.

Dollar Policy:
Manufacturing has suffered at the hands of "strong-dollar" policy as well. The value of the dollar is a critical determinant of competitiveness in international markets. Overvaluation of the dollar makes U.S. manufacturing more expensive while making foreign manufacturers cheaper to consume. It is important to note that the loss of competitiveness by American manufacturers due to the rise in the dollar's value is not related tot he efficiency of individual firms. It is also important to note that while the "strong dollar" policy can give flight to large manufacturers and drive small manufacturers out of business, a decline in the dollar's value to sustainable level will not guarantee reopening of closed factory doors.

Fiscal Policy:
Three provisions of U.S. tax law allow incentives for U.S. firms to move factories and manufacturing jobs overseas. First, foreign subsidiaries of U.S. multinational corporations are not required to pay corporate income taxes until the income is repatriated from abroad. Second, a foreign tax credit allowed against taxes paid to foreign governments. Third, is a system of tax rules governing transfer pricing. Studies have found that opportunities to shift income between countries through transfer pricing, and therefore evading taxation, do play a significant role in determining choices of investment location.

Corporate Governance:
Evolving structures of corporate governance are altering the methods in which corporations allocate their resources internally, and recent studies suggest, are affecting the availability of funds for investments in the manufacturing sector.

Conclusion and Policy Implications:
American deindustrialization is not a natural economic phenomenon, but a manmade crisis that can be traced to policy choices that ignore the well-established contribution of manufacturing industries to economic depth. A coordinated strategy is needed to ease the overvalues American dollar and to prevent future currency issues that impair American manufacturing. Additionally, policymakers should close the corporate welfare loopholes that amount to billions of dollars in subsidies for the export of American manufacturing.

In closing, Manufacturing still remains vital to the U.S. economy, and it is vital to pay proper heed to it. Manufacturing does indeed, matters.