

Securing America's Future:

The Case for a Strong Manufacturing Base

EXECUTIVE SUMMARY

A Study by Joel Popkin and Company, Washington, D.C.
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U.S. manufacturing is the heart of a significant process that generates economic growth and has produced the highest living standards in history. But today this complex process faces serious domestic and international challenges which, if not overcome, will lead to reduced economic growth and ultimately a decline in living standards for future generations of Americans.

Manufacturing's innovation process is the key to past, present and future prosperity and higher living standards. The intricate process starts with an idea for a new product or process, prompting investments in research and development. R&D successes lead to investments in capital equipment and workers, and to “spillovers” that benefit manufacturing and other economic sectors. This process not only generates new products and processes, but also leads to well-paying jobs, increased productivity, and competitive pricing. Yet while this process produces wealth and higher living standards, most of it is hidden from view and poorly understood.

Manufacturing's innovation process provides enormous benefits for the entire U.S. economy:

- **Grows the Economy** - Manufacturing growth spawns more additional economic activity and jobs than any other economic sector. Every \$1 of final demand for manufactured goods generates an additional \$0.67 in other manufactured products and \$0.76 in products and services from nonmanufacturing sectors.
- **Invents the Future** - Manufacturers are responsible for almost two-thirds of all private sector R&D – \$127 billion in 2002. Spillovers from this R&D benefit other manufacturing and nonmanufacturing firms. R&D spillovers are enhanced by geographic proximity.
- **Generates Productivity Increases** - Manufacturing productivity gains are historically higher than those of any other economic sector – over the past two decades, manufacturing averaged twice the annual productivity gains of the rest of the private sector. These gains enable Americans to do more with less, increase our ability to compete, and facilitate higher wages for all employees.
- **Provides More Rewarding Employment** - Manufacturing salaries and benefits average \$54,000, higher than the average for the total private sector. Two factors in particular attract workers to manufacturing: higher pay and benefits, and opportunities for advanced education and training.
- **Pays the Taxes** - Manufacturing has been an important contributor to regional economic growth and tax receipts at all levels of government. During the 1990s, manufacturing corporations paid 30-34 percent of all corporate taxes collected by

state and local governments, Social Security and payroll taxes, excise taxes, import and tariff duties, environmental taxes and license taxes.

Meanwhile, other nations, recognizing that a strong manufacturing base is the proven path to a world-class economy, have been learning from the American example and are forging their own innovation processes to compete with ours.

America's manufacturing innovation process requires a critical mass to generate wealth and higher standards of living. If the U.S. manufacturing base continues to diminish at its present rate that process may deteriorate beyond repair and with it the seedbed of our industrial strength and competitive edge.

The most serious challenges to the long-term viability of the U.S. manufacturing base and the innovation process that underlie it are:

- **Loss of Jobs** - U.S. manufacturers historically lead the way in an economic expansion, but are still struggling to recover from the recent recession. Since July 2000, manufacturing has lost 2.3 million jobs, many of which have been outsourced or relocated overseas. Manufacturing output has shown virtually no growth since December 2001 – the official end of the recession – in the weakest manufacturing recovery since 1919.
- **Loss of Export Potential** - Manufacturing exports as a share of GDP have contracted since 1997, reflecting the strong dollar overseas, the impact of the recession on our trading partners, the terrorist attacks in the United States in September 2001, and increased global competition. The U.S. trade deficit has ballooned to historic highs – reflecting an increase in purchases of foreign-made goods, especially from countries which do not freely float their currencies.
- **Investments are Going Elsewhere** - U.S. manufacturing's share of capital investment and R&D expenditures, once a dominant feature of our nation's commitment to progress, is diminishing. While U.S. manufacturers conduct two-thirds of private R&D, their R&D spending between 2000 and 2002 grew at only half the pace of the previous decade.
- **Needs More Skilled Workers** - Despite the loss of 2.3 million jobs, manufacturing is facing a potential shortfall of highly qualified employees with specific educational backgrounds and skills, especially those specific skills needed to produce manufactured goods. If the skills and knowledge of the American workforce do not improve it will be detrimental to manufacturing's competitive edge and to the prospect for economic growth.
- **Faces Dramatically Rising Costs** - The cost of doing business in the United States is rising dramatically, in large measure because of significant costs related to healthcare, litigation, and regulation. As a result, many U.S. manufacturers shut down or move production overseas to countries where they do not face, to the same extent, those kinds of impediments to reducing productions.

U.S. manufacturing's innovation process leads to investments in equipment and people, to productivity gains, to beneficial spillovers, and to new and improved products and processes. This intricate process generates economic growth and higher living standards superior to any other economic sector. But serious challenges threaten to undermine the critical mass of manufacturing necessary to maintain a dynamic innovation process. **If the U.S. manufacturing base continues to shrink at its present rate and the critical mass is lost, the manufacturing innovation process will shift to other global centers. Once that happens, a decline in U.S. living standards in the future is virtually assured.**

*This white paper is the
second in a series of
publications for
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for Growth and
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 **NAM** National Association
of Manufacturers