

# Helping manufacturing can help the rest of the economy

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# Goals for talk

- Provide vision of what manufacturing could look like: “High road production”
  - Show HRP is desirable for whole economy
    - These policies help a variety of stakeholders
      - Not all manufacturing jobs or policies provide benefit to social welfare
  - Show HRP is feasible
  - Provide framework for policies to promote
    - Put the laundry list in context
    - Focus on policies that benefit from cross-state cooperation

# Manufacturing can help meet national and state goals

- Good-paying jobs with career ladder
  - 14 million jobs, with weekly wage 20% above economy average



- Energy sustainability

» Creating renewable capability to meet 25% of US electricity demand would employ 925,000



# Energy Sustainability is a critical need

- Combating global warming requires capability for innovations large and small
  - Reduce cost of renewable energy
  - Increase efficiency in producing, using cars, appliances, etc.
- These capabilities are lacking
  - 90% of manufacturers report moderate-to-severe shortage of skilled production employees
  - 65% report moderate-to-severe shortage of scientists and engineers
  - Tooling industry lost 1/3 of employees 2000-2005



# “High-road” mfg is necessary to achieve these national goals

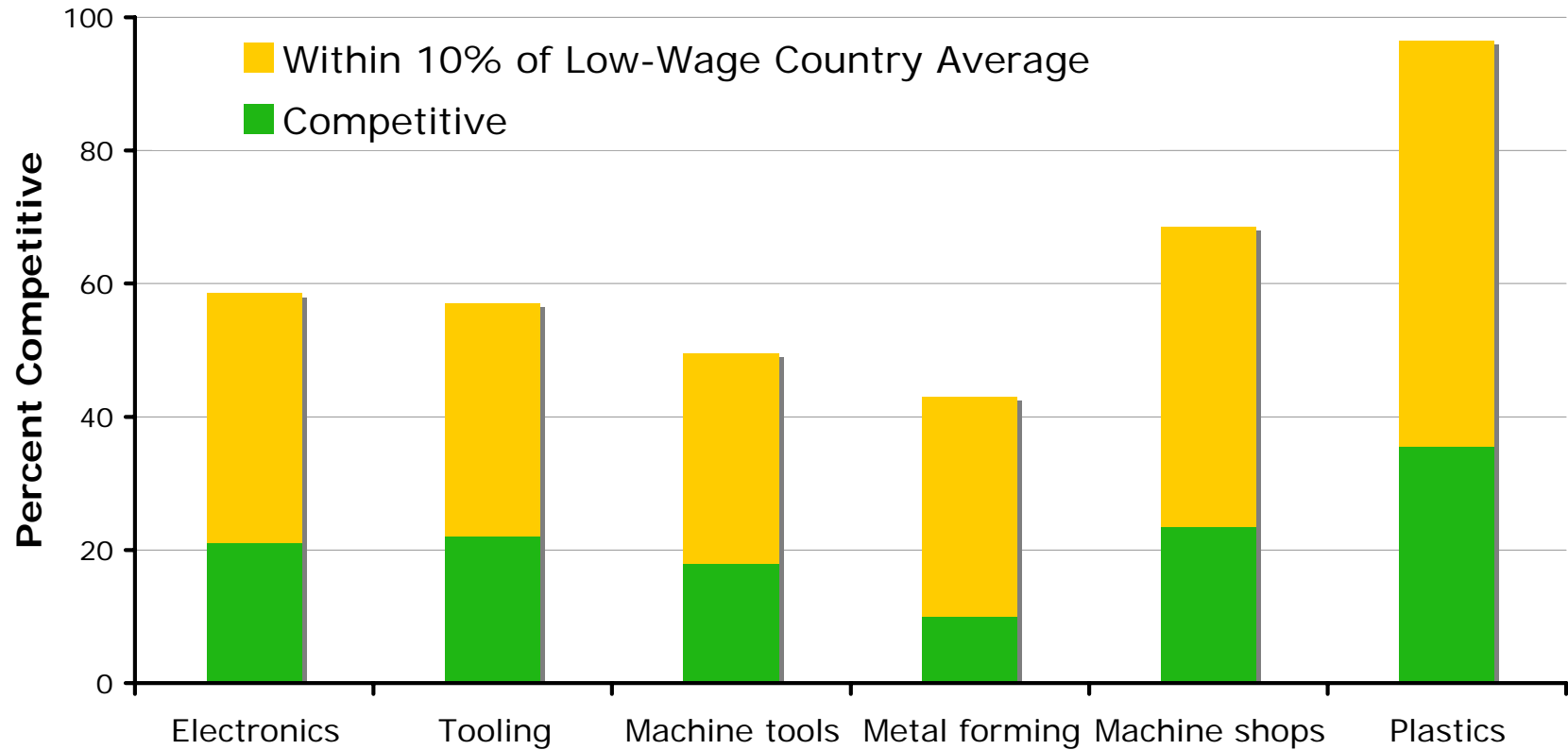
- In “high-road” production, well-paid workers make cost-effective, sustainable products for consumers, profits for owners

- » *How?*

- » High road techniques harness everyone’s knowledge—not just top executives’ -- to achieve innovation, quality, and variety
- » Just one suggestion by workers at Mittal Steel in Cleveland saves \$1 million per year
- » Colonial Machine in Kent OH makes tools just in time, with innovative reusable tool bases and computerized equipment



## Many US Plants are Cost Competitive



**Source:** Michigan Manufacturing Technology Center.  
FY2006 data. Does not include hidden costs of off-shoring.

# High wages don't have to mean high costs

- Direct labor is usually only 5-15% of cost
- Offset high wages with better performance
  - Individual high skills
  - Collaborative supply chain, clusters of nearby firms provide fertile ground for new ideas
    - Avoid hidden costs of off-shoring
      - Management loses focus on innovation at home
      - Increased risk from long supply chain
      - More difficult communication among design, engineering, and production means quality problems may fester
      - Eventually, design as well as production may move

# Firms could close the gap with “high-road” production

- US manufacturers can compete with China.
  - But by *increasing* skill – not by imitating China
- But, many firms don’t use, due to market failures
  - Spillovers to workers and suppliers
    - Firms don’t capture all the gains from high-road production, so they invest too little in it
  - Complementarities
    - Colonial tool needed to invest in information technology, training, process redesign, and marketing
    - No one of these investments would pay off without the other



# Public policies can help

- Teach high-road skills directly
  - Problem-solving for all workers
  - New product development
  - Collaboration with suppliers
    - Organize demand across OEMs
  - National Manufacturing Extension . . . . .  
pays for itself w/ increased tax revenue
    - *Cheap to retain capability, expensive to create it*
- Broader policies also important
  - Pave the high road
  - Block the low road



# Organize Demand across OEMs

- Large mfrs have suppliers in >1 state
- These suppliers serve several OEMs
  - Conflicting demands
    - frustrate upgrading efforts
    - hinders diversification for workers/suppliers
- Wisconsin brought OEMs together
  - Ag and garden equipment
    - Decided to focus on lead time reduction
    - Organized classes, nominated suppliers
    - But supply base goes across state lines

# Complementary policies

- **Pave the high road**

- reduce costs of socially-beneficial actions thru

- Education
    - R&D subsidies

- Education, R&D are important—but not enough to provide good jobs for most Americans

- Direct help in implementing high road strategies helps because it makes workers integral to production—not disposable



# Complementary policies (2)



- **Block the low road**
  - stop undercutting socially-responsible firms
    - Subsidize only firms that commit to high wage, high productivity, sustainable strategies
      - Need definition, plan
    - Stop poaching across states, municipalities
      - European Union rules: govts may offer firm-specific assistance only to:
        - » promote high-tech industry
        - » help small and medium-sized businesses,
        - » assist distressed regions,
      - Add: to help revitalize brownfields

# Conclusion: Why Promote High Road Production?

- Helps other stakeholders in the economy
  - Helps meet national goals such as energy sustainability
  - Doesn't throw money at firms without quid pro quo
- Makes workers integral to production—not disposable
  - Education, R&D are important—but by themselves do not provide good jobs for most Americans
- High road principles apply to all sectors
  - Not just manufacturing

# More information

- See also Economic Policy Institute Agenda for Shared Prosperity: [www.sharedprosperity.org](http://www.sharedprosperity.org)