

# ISSUE BRIEF

## Manufacturing in Crisis

**America has lost more than 2 million manufacturing jobs since April 1998.**

American manufacturing workers are the most productive in the world, but they operate under enormous competitive disadvantages resulting from a variety of factors, including unfair trade and tax policies, health care costs not borne by overseas producers and foreign government subsidies. Congress should acknowledge the severity of this crisis and take the necessary steps to reform the policies that are at its root, namely tax and trade policy, health care reform and labor law reform.

American manufacturing jobs are being lost at an alarming rate. As a share of total U.S. jobs, manufacturing has declined since its peak of 40 percent just after World War II to 27 percent in 1981 and to less than 16 percent today, according to the Bureau of Labor Statistics. Reversing this trend is essential to creating job opportunities for millions of Americans. The crisis will not be solved overnight, but immediate action is needed to stem the loss of jobs and create conditions for a robust manufacturing sector in the future.

**The quality of manufacturing jobs has deteriorated.** Manufacturing's ability to generate good paying, skilled jobs that provide a high standard of living for millions of middle-class working families has been eroded by the crisis. The purchasing power of an average hour's pay in manufacturing has fallen 7 percent since 1979.

**Unionized manufacturing workers have been especially hard hit.** The decline in good manufacturing jobs is tied to the loss of unionized jobs. In 1984, unionized jobs made up about 27 percent of all manufacturing jobs. By 2001, only 15 percent of manufacturing jobs were unionized. As union jobs tend to pay better and provide greater benefits and protections than nonunion jobs, this trend drives down the standard of living for working families.

**The manufacturing trade deficit has grown dramatically.** The deepening trade deficits of the past two decades have contributed to the decline in manufacturing jobs and wages. From 1994 to 2000, the growth in the trade deficit cost 3 million actual and potential jobs, most of them in manufacturing, according to the Economic Policy Institute.

**The manufacturing sector is especially hard hit by the national health care crisis and exploding health care costs.** Unionized manufacturers bear health care costs that nonunion firms and manufacturers operating abroad do not bear. The steel and auto industries in particular have enormous retiree health legacy costs that also undercut their competitiveness and create pressures for employers to eliminate retiree benefits.

**Manufacturing is America's engine for generating good jobs and economic growth and building a middle class.** Historically, manufacturing has been a crucial source of good jobs for the large majority of American workers without college educations. Each manufacturing job supports as many as four other jobs, providing an important boost to local economies.

**Manufacturing is a mainstay of state and local economies.** As a share of gross state product, manufacturing is one of the three largest—out of nine—major sectors in all but eight states. It is the largest sector in 13 states and in the midwest region as a whole.

**A strong U.S. manufacturing base is essential for maintaining a strong national defense and homeland security.** America's national defense long has been based on the strength of its industrial base. But the emergence of globalized production networks in key manufacturing industries, coupled with the loss of critical domestic production and technological capacity, has made the American industrial base more vulnerable to disruptions from international crises—and international terrorism—than ever before.

**Congress should take immediate steps to address this crisis.** Critical areas of policy reform include trade and industrial revitalization, health care reform and labor law reform. Changes to trade policy should include attention to the U.S. trade deficit, protection of U.S. trade laws and enforceable workers' rights and environmental standards in trade agreements. Tax laws should be revised to eliminate incentives for corporations to move production overseas. Congress should use its oversight to address the problem of the overvalued dollar, which puts U.S. based producers at an impossible competitive disadvantage. Congress also should enact rules to deter financial crises and large currency devaluations by reducing developing country debt, regulating financial speculation and reforming the International Monetary Fund and World Bank.

Health care reform should be enacted through a Medicare prescription drug benefit, increased subsidies for employer-provided coverage, expansion of public programs or some combination of these and other strategies. Bringing new public money into the system is essential to easing cost and competitive pressures and preserving employer sponsored health care.

Congress should strengthen labor laws to ensure that workers in the manufacturing sector have the freedom to form unions and bargain collectively, a right that has been eroded over the past few decades. Without significant labor law reforms, the quality of manufacturing jobs and the opportunities for workers without college degrees to increase their standard of living will be severely limited.

Sources: U.S. Department of Commerce, Economics and Statistics Administration, *Engines of Growth, Manufacturing Industries in the U.S. Economy*, July 1995; Mishel, Larry, Bernstein, Jared, and Boushey, Heather, *The State of Working America 2002-2003*, ILR Press, 2003; U.S. Department of Labor, Bureau of Labor Statistics.