



# American Manufacturing: CAN IT BE SAVED?

Jack McGuinn, Senior Editor

*If anyone should ever need convincing that the state of American manufacturing is in ongoing decline, consider this: the state of Michigan has the highest concentration of engineers in the country, yet also has the highest unemployment rate. But there are ripples of hope out there as grassroots and otherwise organized groups are fighting*

*the good fight in an attempt to reverse that trend. One such example is the American Alliance for Manufacturing (AAM)—a Washington D.C.-based non-profit/non-partisan group working to influence policy on such issues as international trade, energy security, healthcare and retirement security to the benefit of American manufactur-*

*ing—for both management and labor. The AAM's genesis was a partnership between major American manufacturing companies and the United Steelworkers. Some generally lesser-known facts about the steelworkers union: it is the largest industrial union in America, but fewer than 15 percent*

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**Scott Paul, AAM executive director.**

*of its members actually work in the steel industry; it is the largest auto parts union, with more workers than the UAW; it is also a tire union; and it has a stake in the glass, fiber optics, pharmaceutical and oil refining industries. Following is an extensive Gear Technology Q&A with Scott Paul, AAM's executive director.*

#### **Why and when did the United States stop making things?**

It's a big question. I think there have been two precipitating events—one is longer-term and one is shorter-term. In the longer term, I think—and this is a process that's been taking place for decades—oftentimes our for-

eign policy took priority versus domestic concerns. And at the end of World War II and several decades thereafter, the United States was the principal industrial nation in the world; we really didn't have any competition, and we were really the 'factory for the world.' And our foreign policy—and I don't think this was shortsighted in particular—was geared toward aiding Germany and Japan to rebuild, which is a good thing, I think. But it was also geared toward Cold War politics, and so we gave a lot of market access to countries in exchange for their support during the Cold War. Over time, the combination of this—along with a lack

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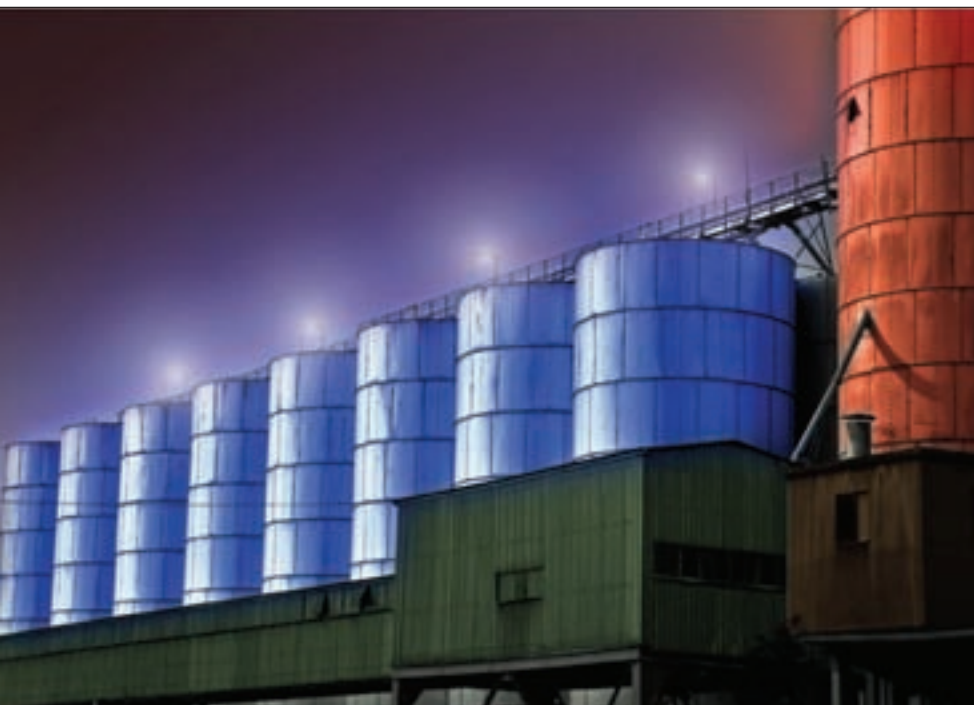
'From just a value-added perspective, the reason why manufacturing is so important, aside from actually making things that help advance an economy and advance a civilization, is that there's more valued-added for the economy. A manufacturing job and the wages that it provides supports four or five other jobs in the economy. A government job doesn't do that; a retail job doesn't do that; a financial services job doesn't do that.'

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in domestic investment in manufacturing—took a toll. Over time, that eroded our position. So I think that's step one. Step two; I think the really short-term precipitating event has been the emergence of China as both a trading nation and, in a lot of ways, an industrial superpower. I think that the erosion that we've seen over the last eight or nine years in particular has been the result of the emergence of China as a competitor and the myriad issues that that represents.

***In television and radio interviews, you have commented extensively on the displacement of manufacturing jobs in favor of the financial services, retail and other service-related industries. Please compare and contrast that development in relation to the accrued benefits to the nation of a healthy manufacturing sector.***

If you look at the share of our overall domestic output, manufacturing makes up only about 9 percent of that now. Healthcare is 18 percent of our economy; the retail services sector is about 20 percent; that has a profound impact. From just a value-added perspective, the reason why manufacturing is so important, aside from actually making things that help advance an economy and advance a civilization, is that there's more valued-added for the economy. A manufacturing job and the wages that it provides supports four or five other jobs in the economy. A government job doesn't do that; a retail job doesn't do that; a financial services job doesn't do that. Also, manufacturing provides more innovation, R&D, technological advancement—the types of things that support our math and sciences—than any of these other sectors. Manufacturing is currently about 12 percent of our GNP, despite being only 9 percent of our working force. And even though it's only 9 percent of employment, manufacturing employs 40 percent of all engineers that are employed in the United States. It is responsible for two-thirds of all the R&D in the private sector that's conducted here. It's responsible for about



80 percent of the patents that are filed in the United States, and it is the largest buyer of technology. So when you're shrinking that sector, you're shrinking a lot more than just factories. You're shrinking R&D and the opportunities for math, science and engineering. There's a tremendous loss that way. Another example of how (manufacturing downsizing) is a tremendous loss and why it's so important is the revenue stream, and it's simply because when manufacturers are in a local community, they're usually the largest local taxpayer. The wages are good, and there's more tax revenue flowing in the economy. But when you replace manufacturing jobs with service jobs, you're shrinking the tax base, which in turn has an effect on public schools, transportation and the kinds of investments that can make a community better. Saying that a transformation away from manufacturing into these other sectors is a good thing and inevitable is completely misguided, and it's very dangerous.

*What is the origin and/or basis for the devaluation of manufacturing?*

I think there's a theoretical background for it, which is a kind of

churning capitalism that destroys and creates. If (capitalism) is destroying manufacturing jobs and creating other jobs, that's a good thing. And so what the theory holds is that if you're losing manufacturing jobs, the jobs that replace them are going to be higher skilled, or pay better, or have more value added. That's the theory. But as we've seen, that's not what happens at all. I think another reason is that there is truly an image that is per-

petuated in pop culture, in government and in the media that 'Factory jobs are old, that they're yesterday, dirty, low-skilled, not desirable. What we need is to work in an office park, we need to write screenplays; this is what America should be doing.' It's really this image that's damaging, too—and the opposite is true. Manufacturing is very advanced, very automated; the jobs tend to be very high-skilled

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'You can make tons of money on Wall Street, whereas if you're a small or mid-size manufacturer—you're doing the right thing, you're making a great product, providing for your workers, you're highly efficient—if you're lucky, you may turn a little bit of a profit, but you're certainly not going to be a billionaire.'

and people take a lot of pride in their work—there's an extraordinary amount of pride in making something. And in being able to show what you did at the end of the day, and where it ends up, rather than creating a financial derivative that makes you and a couple of your buddies rich. Not only is there this view, but I think there are government policies that support this. There is a pretty heavy corporate tax burden on manufacturing. For most financial services exchanges that take place there are a minimal amount of taxes; there's no transaction taxes on a lot of different things. If you want to be in financial services, in the course of your everyday work, you don't encounter nearly the same kind of tax structure, and the financial benefits are vastly different too. You can make tons of money on Wall Street, where if you're a small or mid-size manufacturer—you're doing the right thing, you're making a great product, providing for your workers, you're highly efficient—if you're lucky, you may turn a little bit of a profit, but you're certainly not going to be a billionaire. There's a vastly different set of incentives, and part of it is market-based, but part of it is really driven by government policy.

***What about disincentives to manufacturing, like out-of-control healthcare costs, labor cost, recalcitrant unions and environmental regulations that discourage manufacturing—how do you respond to that?***

Look at Germany; are their labor costs any lower than ours? Are their environmental regulations any less? No—in fact, they're higher. They have higher compensation costs and more

environmental regulations; same with Japan. If you look at most of the developed countries, the U.S. wages are not on a par with these other countries—or are below in many cases. Yet Germany is still a manufacturing powerhouse, as is Japan. And in taking the low road and engaging in a race to the bottom, we're never going to be able to win that. No matter what we do, Mexico is always going to be able to have lower

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'And when (workers) are reasonably compensated you can still compete, but what manufacturers can't compete with is a tax structure that is sometimes very difficult and a healthcare system where, if they're providing healthcare, they're sharing a huge burden for that. And that's a burden that German manufacturers don't face, or Japanese manufacturers don't face, or Canadian manufacturers don't face.'

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wages, and China lower wages than Mexico, and Vietnam is always going to have lower wages than China. So we're never going to win that race if we're not investing in our workers, and there are, what I would call, viable high-road strategies to compete. And when (workers) are reasonably compensated, you can still compete, but what manufacturers can't compete with is a tax structure that is sometimes very difficult and a healthcare system where, if they're providing healthcare, they're sharing a huge burden for that. And that's a burden that German manufacturers don't face, or Japanese manufacturers don't face, or Canadian manufacturers don't face. I'm not saying that we need a single-payer healthcare system, but we obviously need a way to contain costs and to look at a different way of doing things. The other thing that these countries have going for them is that they have a manufacturing strategy. They actually have a strategy to keep manufacturing jobs in their country. And the view of this—and this was true in the Clinton administration and was true in the Bush administra-

tion; it remains to be seen from the Obama administration—has been that (corporations and jobs) were meant to leave—and we'll go with what we have (as a nation) rather than trying to set any goals.

***What incentives would you like to see implemented in order to reverse this trend?***

First, let's look at skills and training. I think our education system is so focused on test scores that we've lost sight of vocational education and in really having a seamless program—from high school to community college—to train people for manufacturing jobs. I think one of the perverse things about the situation that manufacturers are going to face in the next 10 years is that their existing workforce is retiring, and there are not a lot of skilled workers available who are coming into manufacturing. We've gotten away—in the high schools and community colleges—from having a seamless program that works with local employers and that is well funded to help provide a talented pool of workers. I think that, unfortunately, what job training has become is basically a subsidy for shifting people out of manufacturing and into lower-paid jobs. And they're moving them into retail and service jobs and the government is doing the training for the employer. That's not where we should be spending our money. It should be on developing skills for high-wage jobs, and I think that's a big point. That requires the right kind of investment, and it requires a paradigm shift. Next is trade policy, and I know this is controversial. If there's free trade, fine. But it's more of a theory than a reality. And China puts up all sorts of barriers—they subsidize their industries, and they have an exchange rate manipulation that gives them an advantage. If the United States is going to counter that, it's not protectionism. If China is not playing by the rules, we have to call them on that, and we shouldn't be afraid to be aggressive about it. The European Union is very aggressive about that, Japan, etc. We

have nothing to be ashamed of, and we need to counter that.

'Look at what Ronald Reagan did. He certainly was a free market guy, but he stood up for Harley Davidson motorcycles; he got tough with Japan; he forced Japan and Europe to revalue their currencies so that they weren't so mercantilist. And Obama needs to channel a little bit of that and to reassert our rights on trade.'

### *Why the inaction by the United States to enforce its own trade regulations and policies?*

Number one, I think our trade policy has been hijacked by what I would call global companies who have an interest in low-cost imports—even if they're displacing domestic employment. There's a view that we can compete through financial services, but if you look at our trade picture and add up the surplus that we have in education and financial services, it adds up to \$80 billion a year. Look at our trade deficit in kitchen appliances alone—\$84 billion—and that's a tiny segment of manufacturing. We will never balance our trade account by prioritizing services; you have to do it through manufacturing. And you have to demand that those markets are opened up. I hear some companies screaming about Panama and Columbia, but those are pea-sized markets. You have to open China, you have to open Japan, you have to open big consumer markets like that. Look at what Ronald Reagan did—he certainly was a free market guy. But he stood up for Harley Davidson motorcycles; he got tough with Japan; he forced Japan and Europe to revalue their currencies so that they weren't so mercantilist. And Obama needs to channel a little bit of that and to reassert our rights on trade. Number two, I think there is just this reticence to try and help manufacturing. And one broader point—we need to value manufacturing again. The president

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needs to say that and Congress needs to say that. One of the things I work on, and I admit it may sound superfluous, but I also think it's important to get Hollywood and others to understand it too, so that every image they project of a manufacturing worker is not like an Archie Bunker guy. Or every image they project of the factory floor; it's either one of two things—it's either dirty and so 1970s, or it's abandoned and there's some chase scene through it. People get their images from what they see on TV and there needs to be an effort to project a more positive image. It sounds like a little thing, but I think it's a pretty big thing at the end of the day.

Number three is taxes. We really need to think about a new kind of corporate tax system that provides a lot of incentive for producing things here and exporting them. That shakes off some of the incentives that companies get for keeping money offshore, and also for companies that have a lot of different things going on. So much of the corporate tax burden is on U.S. manufacturing rather than on financial services, and it needs to be shifted a little bit. So there needs to be tax reform. And number four, we have to look at health-care and reforming the health-care system, and doing it in such a way that it contains costs and will make us more competitive globally. And we need to do something about energy costs. We need to provide—and I think this is important for your readership—a lending facility with the availability of capital to small and mid-size manufacturers to retool, to become more energy efficient and to be able to compete for work in the clean energy economy as well. Because clearly the direction this country is heading in is more renewable types of energy and for more fuel-efficient cars. It doesn't happen overnight or automatically; we have to put some muscle into it. A

small manufacturer in the industrial heartland is not going to have the capital right now to retool; there needs to be a lending facility for that. Wall Street has been the beneficiary of all the bailouts and yet has certainly been a bit stingy getting the money back out there into the heartland.



*Given the existing acrimony in our politics today at both the state and federal level, how can one be optimistic that the politicians will ever come to their senses and try working together for the benefit of the nation? Witness the healthcare reform standoff, for example.*

The healthcare fight is not a good example of working together. The one thing we (AAM) have found, and

we've worked with Republican and Democratic members of Congress, is that (the parties) may have different reasons for (supporting manufacturing). There might be Republicans who support manufacturing because of a small business angle where they think it's good for national security. There may be Democrats who support it because it provides high-paid jobs or some other factor. But there's actually a lot of commonality on this, and I think there's actually a moment of opportunity here. There's still so much frustration with Wall Street, and how everything is geared toward Wall Street and not Main Street, that we can capture a little bit of that. But I think the big thing is that manufacturing is not looking for an \$800 billion bailout; we're basically looking for a more level playing field and maybe a little more investment. But the ripple effect from the recession, the Wall Street crisis and also, what has happened to GM and Chrysler, is far and wide, and it goes well beyond the assembly plant—it's all over. It's going to require some work to get that back, and it requires some investment.

***How do you view the effect of President Obama's economic stimulus initiative?***

If you ask most mainstream economists, they thought that the overall cost of the stimulus was probably about right for what needed to be done.

My main criticism was that enough of it wasn't in infrastructure, that too much of it was in activities that weren't going to have enough value added. It does take a little bit more time for infrastructure projects to create jobs. But we're not talking about the pork barrel 'bridge to nowhere' projects; we're talking about things that need to be done to reduce congestion, to build high-speed rail or other things that are

going to have long-term benefits for the American economy. We have short-changed those types of investments for a long time. Shanghai has high-speed rail from its airport to its downtown; we have nothing that approaches that. Our infrastructure is crumbling, and that's the type of thing we need to be investing in.

*We've heard a lot lately about "buy American." Realistically, how can that work in a global economy?*

'Buy American,' from a governmental procurement perspective, is something we have done for more than 70 years. It actually had broad support: Ronald Reagan expanded the 'buy American' program for highways and mass transit, Dwight Eisenhower used it to build the nation's highway system, so this is nothing new. And every other country does it, media reports notwithstanding. It's just common sense. If you're going to invest American tax dollars in some sort of project, you want those resources directed toward helping American workers and American companies. We have foreign aid programs to help other countries, but we don't need to be doing that at the expense of our own manufacturing base. And then there's consumer choice. I was delighted when President Obama said that 'If you're considering buying a new car, I hope you consider buying American.' I think that set the right tone; he didn't say you have to buy one. I don't think we are dictating that consumers buy American products, but I think we can do a better job of educating people as to the benefits they are going to get back, in terms of economic growth over a product's lifetime for example. ⚙️

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