



# REVITALIZING AMERICAN MANUFACTURING

**A STATE AND LOCAL AGENDA**

NOVEMBER 2004

Good Jobs • Healthy Communities • A Voice for Working Families

**Industrial**  
**UNION**  
**COUNCIL • AFL-CIO**

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# Introduction



OVER THE PAST TWO YEARS, the AFL-CIO Industrial Union Council (IUC) has been promoting policies aimed at stemming and reversing the loss of good manufacturing jobs from the United States. In its report, *Revitalizing American Manufacturing*, the IUC put forth a policy and action agenda to address the manufacturing crisis. The primary elements of this agenda include ending unfair trade, currency and tax policies that encourage the exporting of jobs; reducing the impacts of health care and legacy costs on manufacturers' competitiveness; and investing in manufacturing through strengthened Buy American provisions governing defense procurement and promoting the Apollo Alliance for Energy Independence.

But these are only first steps. Even as we address the national and global forces underlying America's manufacturing crisis, we also need to address the crisis on Main Street. That is the intent of this report: to provide a comprehensive, integrated strategy that links national—indeed, international—policies with the high-road economic development initiatives that help states and communities revitalize their manufacturing sectors. This report presents

three broad areas in which state and local actions and policies can make a difference in revitalizing the American manufacturing base at every level of the economy: promoting federal policies that discourage companies from exporting jobs; promoting retention and creation of good manufacturing jobs at the state and local levels; and helping America's workers remain competitive in the global economy.

The extent to which we revive our manufacturing base may determine the depth of the nation's economic recovery. It also will shape the economic prosperity of a community or a state's future. *Revitalizing American Manufacturing: A State and Local Agenda* moves us toward that future by providing a framework for guiding the efforts of state and local leaders—in government, labor, business, academia and the grassroots—to craft high-road manufacturing policies tailored to the unique needs of their regions, states and communities. By thinking globally and acting locally, states and communities can take the vital step of complementing the ongoing efforts to address the forces underlying the crisis in American manufacturing at the national level.



# Executive Summary

**A**S AMERICA'S NATIONAL manufacturing crisis continues, it extends deep into Main Street, inflicting pain in both rural and metropolitan areas throughout the country. Nearly every state in the nation has lost both manufacturing capacity and jobs. Not only are high-quality jobs disappearing and traditional ladders to the middle class for non-college-educated workers crumbling, the wave of plant closures and job exporting has cost communities and states vital tax revenues, contributing to one of the worst fiscal crises for state and local governments in U.S. history.

Unlike job loss in past economic downturns, most of these manufacturing job losses may be permanent, with no indication from where new, comparable, high-quality job opportunities for displaced workers—and future workers—will come. Now high-end, highly skilled information technology and other service jobs—once seen as replacements for industrial “Old Economy” jobs—are joining manufacturing jobs in the massive stream of U.S. jobs to low-cost offshore labor markets, in particular to China, Mexico and other Asian and Latin American countries.

A vigorous national debate has emerged over the causes of America's manufacturing crisis and what should be done to alleviate it. Too often ignored or downplayed is how the crisis has hurt millions of workers and their communities throughout the nation—and how state and local strategies can help.

## The Crisis on Main Street

National statistics obscure the devastating impact of America's manufacturing crisis on regional, state and local economies. Stories abound of communities pushed into a downward spiral—losing good jobs, tax revenues and public services—as companies shift their production to low-cost offshore locations.

**Nearly every state has been affected.** In 2001, 40 states and the District of Columbia lost manufacturing output. On average, each state lost 18 percent of its manufacturing workforce—nearly one in five manufacturing jobs—between June 1998 and May 2004. In 48 of 50 states, jobs in higher-paying industries (such as manufacturing) gave way to jobs in lower-paying industries.

**Metropolitan areas have been hurt.** Between January 2001 and May 2004, major metropolitan

## *American Manufacturing in Crisis*

Despite signs that the U.S. economy is recovering from the recession of 2001, American manufacturing remains in the doldrums.

- In January 2004, U.S. manufacturing employment fell to its lowest level since 1950. By June 2004, U.S. manufacturing employed 14.38 million workers—more than 2.7 million fewer than in January 2001, with every major manufacturing sector losing one-tenth or more of its workforce.
- Real wage and salary growth for production and nonsupervisory workers slowed significantly as a result of the manufacturing-led recession.
- The U.S. trade deficit in goods grew to a record-breaking \$532 billion in 2003, an unprecedented 5 percent of U.S. gross domestic product. The goods deficit with China, in particular, was \$124 billion in 2003, up 20 percent over the previous year, also a record.

areas with more than 100,000 manufacturing jobs lost an average of 17 percent of their manufacturing workforces.

**Rural areas have been especially hard hit.**

Since 2000, rural areas have shed 575,000 factory jobs or 12 percent of their manufacturing workforces after 2000. Persistent poverty in many rural areas has deepened as a result.

**Low-income and minority communities are suffering.** Minority and low-income communities are further entrenched in poverty due to the erosion of the ladders to the middle class that manufacturing jobs traditionally provided workers without college educations. Manufacturing employment for African Americans fell faster than for any other group, by 20 percent from 1998–2002, while Latino workers suffered comparable losses in manufacturing industries where they tend to concentrate.

**Good jobs have been lost—permanently.**

This has been one of the most dismal post-recession recoveries in U.S. history. Many, if not most, jobs in manufacturing are being lost permanently, and workers who manage to be re-employed are mostly finding jobs in lower-paying sectors than those they left. The Economic Policy Institute reports that since the recession's end, the average wage in growing industries was 21 percent less than in contracting industries (such as manufacturing). Moreover, many communities are having a much harder time recovering than in earlier post-recession periods, as information technology and high-tech jobs that dislocated workers might aspire to now increasingly are being sent overseas.

**State and Local Manufacturing Matters**

National policies, as outlined in the AFL-CIO Industrial Union Council report *Revitalizing American Manufacturing*, are vital for reversing the manufacturing crisis but not sufficient for rebuilding the nation's lost manufacturing capacity. Attention also must be paid to revitalizing manufacturing at the regional, state and local levels.

**Manufacturing is a key driver of state and local economic growth.** It accounts for a large share of most states' economic output, and is a leading source of jobs, especially for workers without a college degree. Before the economic downturn, it provided at least one in 10 private-sector jobs in 41 states, more than one in five in a dozen states and, on average, one in six in many large metropolitan areas. Its importance to rural economies is even greater.

**Manufacturing is vital to the fiscal health of state and local governments.** As states and local communities lost factories and jobs, their tax revenues plummeted, contributing to the states' worst fiscal crisis since World War II. Cumulative budget shortfalls totaled an estimated \$200 billion over the past three years, and many states face large shortfalls for fiscal year 2005. Because most states are required by law to balance their budgets, they have raised taxes or cut spending from many important services.

**Manufacturing clusters matter to the national economy.** Manufacturing tends to concentrate in "industry clusters"—geographically proximate groups of interconnected firms and associated institutions in related sectors (such as automobiles in Detroit and textiles in North Carolina), including product producers, service providers, suppliers, universities, trade associations and unions. Strong industry clusters confer competitive advantages to related industries and firms, tend to be more resistant to global competition, drive regional economic growth, are important to small and mid-sized manufacturers and foster technological innovation and productivity growth.

**A High-Road State and Local Manufacturing Agenda**

This report lays out a three-part, high-road strategy for reviving state and local manufacturing as the cornerstone of revitalizing American manufacturing. It outlines actions that state and local elected leaders can take—but labor can and must play an instrumental role in designing and implementing these initiatives within their states and communities. In summary, these recommendations are:

## **1. Support federal policies that discourage companies from exporting jobs overseas.**

Much can be done at state and local levels to mobilize broad public support for national policies that help U.S. manufacturers be more globally competitive:

- Act to raise public awareness and put pressure on Washington, D.C., by passing resolutions and ordinances and through lobbying Congress and the White House. Other actions include convening conferences, hearings, leadership summits and study panels, organizing public events and demonstrations and creating new governmental offices that promote state and local manufacturing interests.

- Take administrative or legislative actions complementary to national policies. For example, many states are considering or have passed measures to reduce health care costs, outsourcing and trade agreement constraints on government procurement.

## **2. Promote retaining and creating good manufacturing jobs at the state and local levels.** State and local economic development programs need to focus on high-road strategies:

- Support incentives to manufacturers for high-road business practices, such as job quality and community standards attached to subsidies, claw-back provisions if companies don't live up to their commitments and fiscal disclosure and accountability requirements that generate annual company-specific data about subsidies.

- Promote high-road economic development strategies to retain and create good manufacturing jobs through early warning systems and rapid response services, strategic planning processes to evaluate a region's assets and develop an economic plan, and programs to aid manufacturers and new enterprises, including financial resources, industrial modernization services and financial support for research and development and innovation. Public investments in energy, transportation, waterworks and other public needs and Buy Local and Buy American require-

ments on state and local government procurement can generate new manufacturing activity and jobs.

- Strengthen and expand industrial clusters, including measures that target economic development resources to strengthen core industry clusters of regions, states and communities, and strengthen and create intermediary industrial organizations and networks that support the development of manufacturing clusters.

- Leverage federal programs and resources to support high-road economic development. State and local leaders need to pressure Congress and the White House to strengthen, tailor and, in many instances, increase and restore funding for federal programs (which provide various forms of assistance to workers, businesses and communities) that aid their high-road economic development initiatives.

## **3. Help America's workers remain competitive in the global economy.** High-road economic development requires coordinating public and private support for the education and training of incumbent, displaced and new workers. State and local jurisdictions need to develop, tailor and expand workforce programs, administered by public agencies and supplemented by federal and private resources, to help manufacturing employers and workers become more competitive in the global economy. These include:

- Workforce training and development programs that help incumbent workers obtain the learning they need for economic self-sufficiency. These programs need to be greatly strengthened at every level of government, and manufacturers need to be encouraged to invest more in training frontline workers.

- Workforce adjustment assistance programs, including support for training, income maintenance, job placement and health benefits, that help dislocated workers become employable and find good, new jobs. Programs need to be expanded and better funded, especially Trade Adjustment Assistance



(TAA), and states need to improve TAA outreach, enrollment and services to ensure all trade-affected workers receive TAA support and the Health Coverage Tax Credit (HCTC).

- Future workforce programs that help move young or chronically unemployed workers into good, new jobs must be more adequately funded and more tightly linked to job creation.

- Innovative workforce programs aimed at supporting industry networks and clusters. State and federal agencies need to make greater investments in these approaches.

The challenge of revitalizing American manufacturing is national in scope and requires responding to economic threats and opportunities that are global in nature. But to be successful, all stakeholders touched by the manufacturing crisis, especially the union movement, need to be involved, acting at every level of the economy and society, from the largest states and cities to our smallest communities in rural America. Most importantly, ending the manufacturing crisis on Main Street is both possible and necessary for sustaining a high standard of living for America's working families in the 21st century.

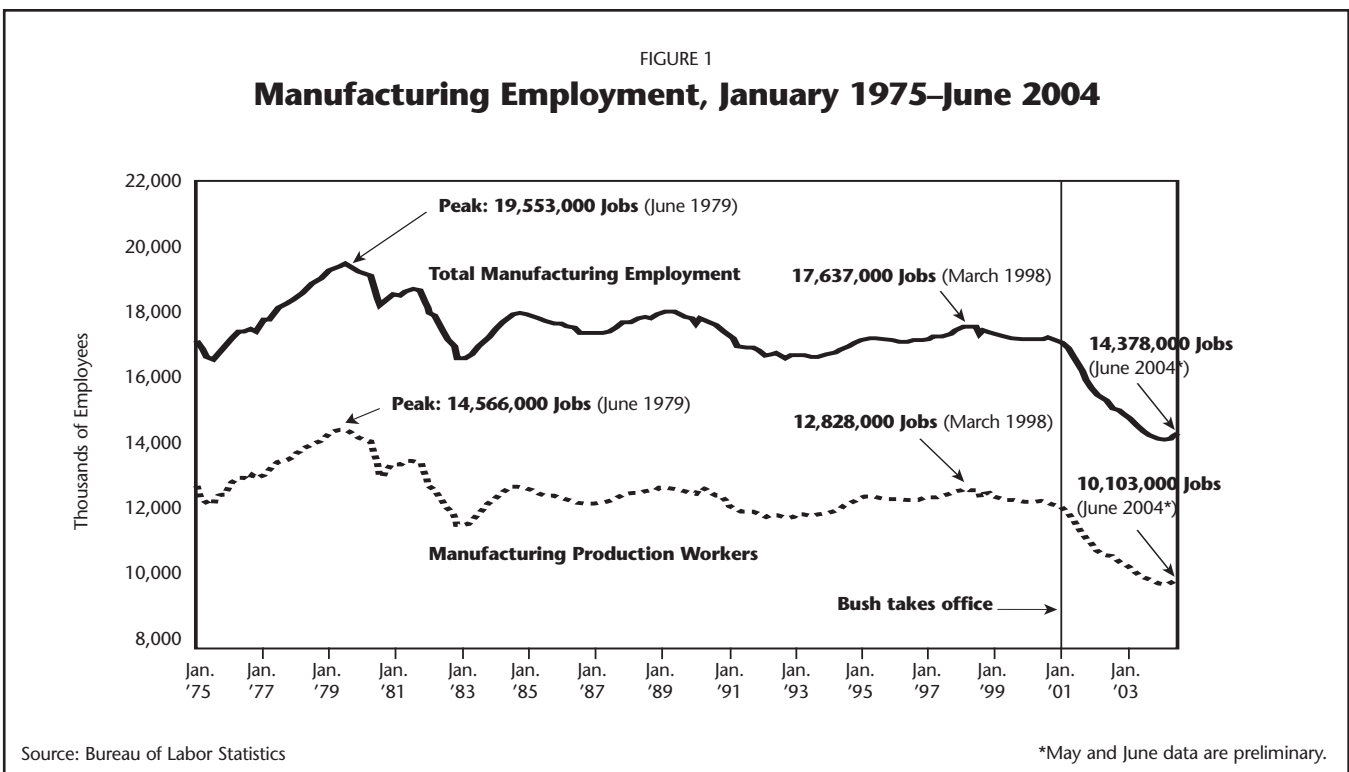
# American Manufacturing in Crisis

**D**ESPITE SIGNS that the U.S. economy is recovering slowly, the manufacturing sector remains in the doldrums. Although U.S. manufacturers report rising profits, they have not been creating good manufacturing jobs—at least not in the United States. U.S. deficits in traded manufactured goods have reached record levels, reflecting the declining global competitiveness of America’s manufacturing sector. And as we increase our net imports of foreign goods, we export more and more jobs overseas.

U.S. manufacturing employment declined for 42 straight months from August 2000 to January 2004, falling to its lowest level since 1950. Production worker employment—the traditional blue-collar workforce—has been hit particularly hard, dropping to its lowest level since 1941.

Overall, nearly 3.3 million manufacturing jobs have been lost since March 1998, the last peak of manufacturing employment—a drop of 18.5 percent. More than a half million (575,000) manufacturing jobs were shed in 2003 alone. In June 2004, U.S. manufacturing employed 14.38 million workers—more than 2.7 million fewer than in January 2001 (see Figure 1).

Every major manufacturing sector lost a large share of its workforce. Most have lost more than 10 percent since January 2001; several (primary metals, computers and electronics, machinery, electrical equipment and appliances) lost more than one-fifth to more than one-quarter; and some (apparel, textile mills, leather products) shed 30 percent or more of their workers (see Table 1).



The manufacturing-led recession slowed wage and salary growth for production and nonsupervisory workers over the 1998–2003 period, according to

the Economic Policy Institute (EPI). Real annual hourly earnings growth fell from 2.6 percent in 1998 to 0.6 percent in 2003, its lowest level in five years.

TABLE 1  
**Employment Change by Industry Sector, January 2001–June 2004\***

(In thousands, seasonally adjusted)

Industry Sector	Employment	% Change
Non-Farm	-1,087.0	-0.8%
Private	-1,802.0	-1.6%
<b>MANUFACTURING</b>	<b>-2,715.0</b>	<b>-15.9%</b>
Production Workers	-2,118.0	-17.3%
<b>DURABLE GOODS</b>	<b>-1,844.0</b>	<b>-17.1%</b>
Wood Products	-44.0	-7.5%
Non-Metallic Mineral Products	-51.6	-9.3%
Primary Metals	-141.7	-23.3%
Fabricated Metal Products	-262.0	-14.9%
Machinery	-291.9	-20.1%
Computer and Electronic Products	-527.1	-28.2%
Electrical Equipment and Appliances	-134.7	-23.2%
Transportation Equipment	-213.1	-10.8%
Motor Vehicles and Related (parts, etc.)**	-122.9	-9.9%
Aerospace Products and Parts**	-80.0	-15.7%
Furniture and Related Products	-98.6	-14.6%
Misc. Manufacturing	-79.8	-10.9%
<b>NONDURABLE GOODS</b>	<b>-871.0</b>	<b>-13.8%</b>
Food Manufacturing	-53.6	-3.4%
Beverage and Tobacco Products	-10.6	-5.1%
Textile Mills	-129.0	-35.5%
Textile Product Mills	-33.7	-15.8%
Apparel	-181.6	-38.7%
Leather and Allied Products	-19.2	-30.3%
Paper and Paper Products	-94.1	-15.7%
Printing and Related Support Services	-133.3	-16.7%
Petroleum and Coal Products	-8.2	-6.7%
Chemicals	-81.7	-8.4%
Plastics and Rubber Products	-125.5	-13.4%

\* May and June 2004 data are preliminary.

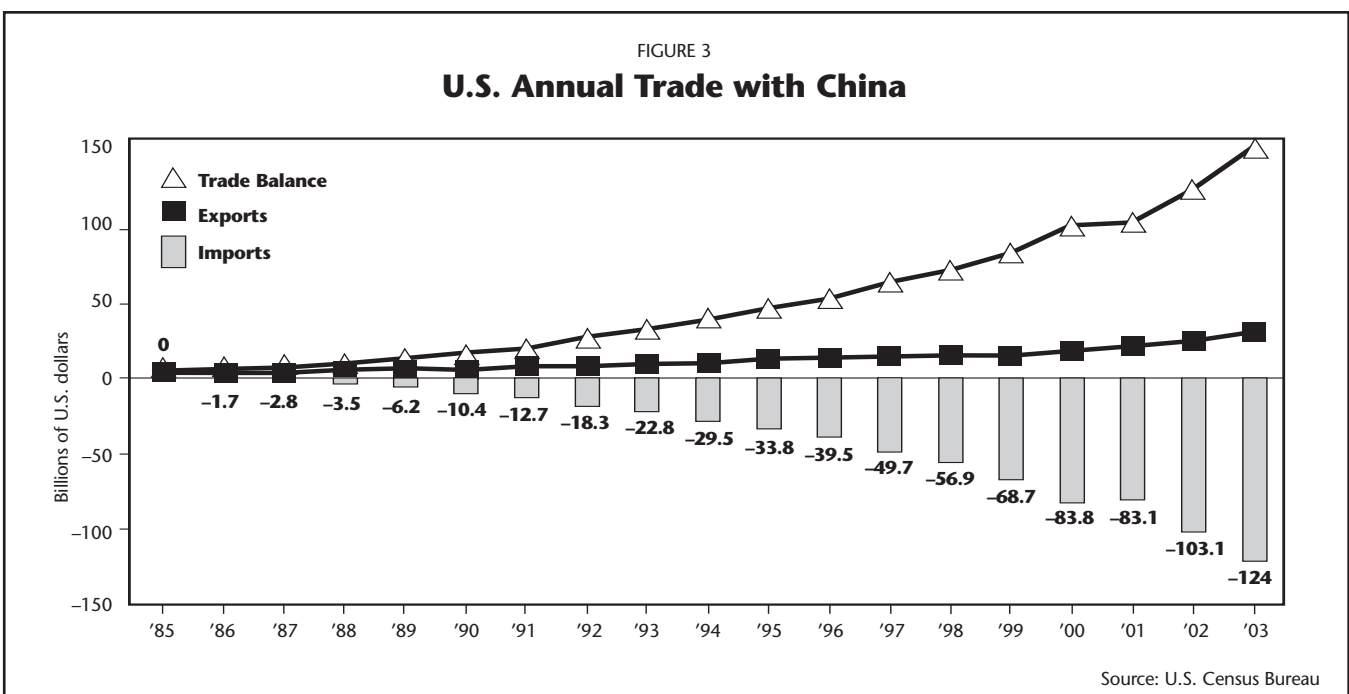
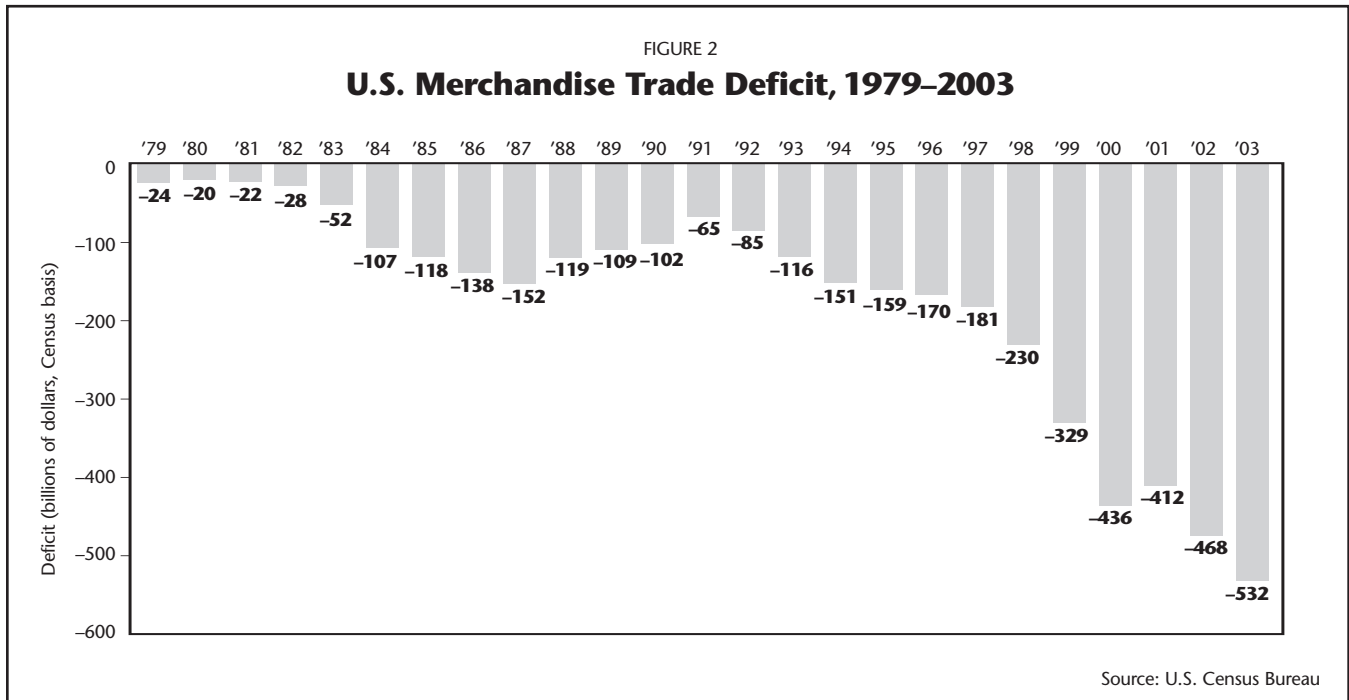
\*\* Data for January 2001–May 2004; May 2004 data are preliminary; not seasonally adjusted.

Source: U.S. Bureau of Labor Statistics

The U.S. trade deficit in goods grew by 14 percent in 2003, to an astounding half trillion dollars (\$532 billion, census basis, see Figure 2) and is well on its way to a new record high in 2004. As a share of U.S. gross domestic product (GDP), it increased to an unprecedented 5 percent.

By far, the most imbalanced U.S. trade relationship is with China (see Figure 3). The U.S. goods deficit

with China reached \$103 billion in 2002, up almost 25 percent since China was granted Permanent Normal Trade Relations status in 2000. This deficit grew another 20 percent in 2003, to \$124 billion, setting a new record. The gap continues to accelerate, as China's trade surplus with the United States increased 27.1 percent in the first half of 2004, to \$68.5 billion.





# The Crisis on Main Street

**N**ATIONAL STATISTICS obscure the true depth of the manufacturing crisis. They reveal little of the harm done to regional, state and local economies across the nation. In almost every state, most large metropolitan areas and throughout rural America, numerous production facilities have closed or cut back and many thousands of good jobs have been lost. Stories abound of towns and municipalities pushed into a downward spiral as companies shift or outsource production to offshore locations with low-cost labor, lax regulations and large tax advantages.

Among the most notable examples are Pillowtex's shutting of its Kannapolis, N.C., towel factory with 6,450 jobs lost, Maytag's closure of its Galesburg, Ill., refrigerator plant costing 1,600 jobs and Electrolux AB's decision to shut down its refrigerator factory in Greenville, Mich., throwing 2,700 workers out of their jobs (see Box 1). In each case, the company is relocating and shifting work to Mexico, China or other foreign locations. These events are emblematic of how the exporting of jobs is rending the economic and social fabric of American communities. Equally worrisome, despite the signs of economic recovery, it seems unlikely that many of these jobs will ever return.

## **Nearly Every State Has Been Affected**

Since 1998, and especially since the recession began in March 2001, nearly every state has lost both manufacturing capacity and jobs.

Nationally, real manufacturing output dropped by 6 percent in 2001. Over that year, 40 states and the District of Columbia saw manufacturing output declines. In 20 states and the District of Columbia, the declines ranged from 5 percent to 10 percent,

and in seven states the percentage loss was in the double digits.

The states averaged an 18.1 percent drop in their manufacturing workforces—about one in five manufacturing jobs—between June 1998 and May 2004. About three-fourths of each state's loss, on average, occurred between January 2001 and May 2004. All but two states lost manufacturing jobs in this period (see Map A), and all but one lost at least one in 10 manufacturing jobs and 21 states and the District of Columbia lost at least one out of five such jobs. California led the way with 318,000 lost jobs in manufacturing, while seven states—Texas, Ohio, North Carolina, Pennsylvania, Illinois, New York and Michigan—lost more than 100,000 jobs and another 20 states lost between 30,000 and 100,000 jobs in that sector.

According to EPI, since the recession ended in November 2001, jobs in lower-paying industries have been replacing jobs in high-paying sectors (such as manufacturing) in 48 of 50 states. Nationwide, the average wage in growing industries was 21 percent less than in contracting industries. In 29 of the 30 states that lost jobs, the losses were concentrated in higher-paying sectors.

## **Metropolitan Areas Have Been Hurt**

The manufacturing crisis on Main Street has hurt metropolitan areas, where manufacturing traditionally has been concentrated.

Nearly every major metropolitan area in every region of the country has lost manufacturing jobs since 1998. According to the federal Bureau of Labor Statistics, in March 2004, manufacturing had over-the-year decreases in employment in 191 out of 274 metropolitan areas surveyed, making it the weakest industry-sector jobs performer.

### ***The Downward Spiral of Exporting Jobs***

- In 2005, when Swedish-owned Electrolux AB closes its refrigerator factory in Greenville, Mich., the maker of the Frigidaire brand will throw 2,700 workers, almost all UAW members, out of work. Refrigerators have been made in Greenville, a blue-collar city of 8,000 about 30 miles northeast of Grand Rapids, since the late 19th century. Electrolux, Montcalm County's largest employer, plans to transfer most of the plant's work to new facilities in Mexico. Electrolux made its decision to move despite incentives and union concessions worth \$74.4 million per year to the company. Electrolux's move to Mexico is only the latest result of flawed trade policies that have caused the loss of more than 30,000 manufacturing jobs in the Grand Rapids area since 2000.<sup>1</sup>
  
- When the Maytag Corp. closes its Galesburg, Ill., refrigerator plant in late 2004, it will lay off 1,600 employees, mostly Machinists members. Maytag will transfer most of its work to Reynosa, Mexico, where unskilled workers are paid one-sixth the \$15-an-hour average wage earned at Galesburg. The company will contract out its top-freezer refrigerator production to South Korean manufacturer Daewoo Electronics. The closure of this 52-year-old plant, operated by Maytag since 1986, has rocked Galesburg, a town of 34,000 that has depended on appliance manufacturing to supply jobs for three generations of workers. Maytag's departure could cost 6,000 non-Maytag, private- and public-sector jobs, and one of every 10 existing jobs in Knox County, where it is located. The Galesburg closure is rippling through other communities where the plant has suppliers—the Straits Steel & Wire Co. plant in Ludington, Mich., is shedding 70 percent of its workforce and two Freedom Plastics LLC plants in Sheffield, Ill., are erasing 135 jobs.<sup>2</sup>
  
- When Pillowtex Corp., maker of Cannon and Fieldcrest towels, closed its factory in Kannapolis, N.C., in August 2003, the city lost its largest employer. Its dismissal of 6,450 workers, mostly members of UNITE HERE, was the largest layoff in North Carolina's history and the largest ever in the U.S. textile industry. Pillowtex was brought to its knees by a flood of cheap imports from Mexico, China and Pakistan and competition from high-end U.S. labels. Local leaders expect most laid-off workers will end up in retail and service-sector jobs paying half their mill wages. The city is bracing for the worst, with lost cars, lost homes and many residents relocating.<sup>3</sup>
  
- When Jabil Circuit decided to close its Meridian, Idaho, printed circuit board plant and lay off 500 workers by the end of 2002, it was estimated that the loss could drain \$50 million from the region's economy—including \$23 million of lost payroll, \$1 million of property taxes and the plant's substantial yearly spending on local goods and services. The multiplier effect from lost spending by plant workers on local services and goods could double the payroll losses. Meanwhile, Jabil has purchased at least nine overseas manufacturing facilities, which have taken on much of the local work.<sup>4</sup> The company has systematically moved its assembly-line work to countries with low-cost labor, including China, Malaysia and Mexico.
  
- When National Steel Corp. in Granite City, Ill., declared bankruptcy in 2002, the loss of property taxes threatened to leave municipal treasuries short by \$3 million, forcing an elementary school to close among other impacts. Steelmaker LTV Corp.'s bankruptcy cost East Chicago, Ind., \$16 million in lost tax payments. Porter County, Ind., lost \$31 million in property tax revenues after Bethlehem Steel declared Chapter 11.<sup>5</sup>

<sup>1</sup>J. Pritchard, "Refrigerator maker to shut state plant, send work to Mexico, Greenville losing 2,700 jobs at Electrolux factory," *The Detroit News*, Jan. 16, 2004.

<sup>2</sup>W. Ryberg, "Workers rip closing at Maytag: Company stands by move of Illinois work to Mexico," *The Des Moines Register*, May 9, 2003, 1-D; J.P. Miller, "Rural towns feel chill of shutdowns," *Chicago Tribune*, Sept. 1 2003, C-1.

<sup>3</sup>M. Barbaro, "A North Carolina Town, Unraveled," *The Washington Post*, Aug. 9, 2003, E-1.

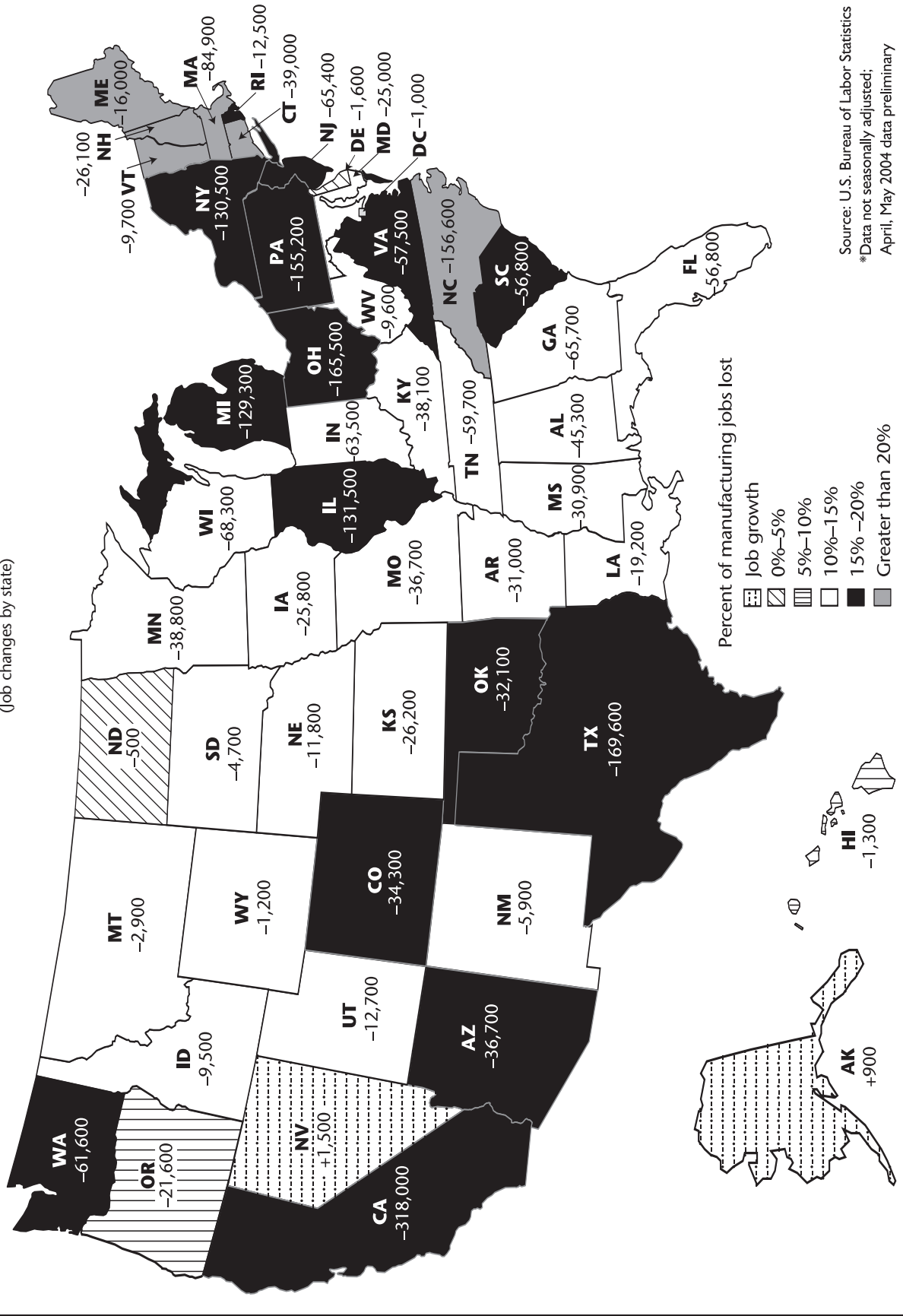
<sup>4</sup>J. Howard, "Jabil plant closure may hurt local economy," *The Idaho Statesman*, Oct. 16, 2002.

<sup>5</sup>R.G. Mathews, "While Steel Enjoys Boom Hometowns Feel Shortchanged," *The Wall Street Journal*, Aug. 5, 2002.

MAP A

# The State Crisis: Manufacturing Jobs Lost Since Bush, January 2001–May 2004\*

(job changes by state)



Source: U.S. Bureau of Labor Statistics  
\*Data not seasonally adjusted;  
April, May 2004 data preliminary

Table 2 shows the wide regional dispersion of manufacturing losses in major U.S. cities and their surrounding areas with 100,000 or more manufacturing jobs. The metropolitan areas in this group

lost an average of nearly 43,100 jobs or more than 17 percent of their manufacturing workforces between January 2001 and May 2004.

TABLE 2  
**Changes in Manufacturing Employment for Major Metropolitan Areas  
 January 2001–May 2004**

<b>Metropolitan Area</b>	<b>Manufacturing Jobs, January 2001</b>	<b>Employment Change</b>	<b>% Change</b>
New York–Long Island–North New Jersey	774,100	-139,800	-18.1%
Los Angeles–Long Beach	594,500	-109,300	-18.4%
Chicago	558,300	-93,300	-16.7%
Detroit	364,400	-53,300	-14.6%
Philadelphia	262,600	-47,500	-18.1%
San Jose, Calif.	257,300	-85,300	-33.2%
Dallas	241,300	-42,300	-17.5%
Minneapolis–St. Paul	233,600	-24,900	-10.7%
Houston	210,200	-24,500	-11.7%
Cleveland	200,600	-39,500	-19.7%
Boston	196,600	-38,200	-19.4%
Atlanta	189,700	-19,500	-10.3%
Seattle	187,300	-42,800	-22.9%
Milwaukee	160,700	-26,100	-16.2%
Phoenix	160,000	-32,200	-20.1%
St. Louis	159,900	-15,600	-9.8%
Greensboro–Winston Salem–High Pt., N.C.	148,200	-31,700	-21.4%
Portland, Ore.	141,800	-23,400	-16.5%
Charlotte–Gastonia–Rock Hill, N.C.	125,400	-25,000	-19.9%
Pittsburgh	124,600	-19,300	-15.5%
Cincinnati	120,300	-15,700	-13.1%
Newark, N.J.	117,800	-19,800	-16.8%
Greenville–Spartanburg, S.C.	116,900	-22,200	-19.0%

Source: U.S. Bureau of Labor Statistics



## **Rural Areas Have Been Hit Especially Hard**

Rural America, which enjoyed a dramatic growth in manufacturing activity during the boom years of the 1990s, has become more dependent on manufacturing than the nation's urban centers. Consequently, it suffered disproportionately greater losses during the manufacturing downturn.

The Progressive Policy Institute reports that manufacturing accounted for 22.3 percent of nonmetropolitan area earnings in 1998 but only 16 percent in metro areas. According to the Federal Reserve Bank of Kansas City's Center for the Study of Rural America, rural factory jobs increased by 3.3 percent a year between 1991–1998, 50 percent faster than urban factory job gains.

After 2000, rural factories cut payrolls by more than a tenth, about one-and-a-half times the job losses at urban plants. In the past four to five years, the Federal Reserve Bank of Kansas City reports, rural communities lost at least 12 percent of their manufacturing jobs.

Industries with large rural concentrations, such as food, textiles, apparel, lumber, furniture and paper industries, have suffered from greater global competition than chemicals, metal, equipment and instruments, which are more concentrated in metro areas. Ironically, in the 1980s and 1990s, many manufacturers moved from urban to rural areas to take advantage of lower-wage labor pools, cheaper land and less regulation, fueling the rural manufacturing boom. Now, many rural firms are moving plants offshore to even lower-cost sites, such as Mexico, China and elsewhere.

Rural communities feel the impact of manufacturing plant closings more intensely than the more economically diverse urban areas. As illustrated in Box 1, companies such as Maytag, Jabil Circuit and Pillowtex were dominant employers in the towns they abandoned. Because tax bases of rural towns are heavily dependent on their large employers, when plants close, schools, social services, public infrastructure and police and fire services all lose.

Small businesses (restaurants, dry cleaners, dentists, etc.) in towns also suffer, and many displaced workers, faced with relatively few job options in rural areas, put their homes up for sale and move away. The large-scale losses of businesses, tax revenues and many of the best-paid, highest-skilled jobs over the past five years have deepened the persistent poverty in many rural areas, including Appalachia, the Mississippi Delta and the Rio Grande Valley.

## **Low-Income and Minority Communities Also Are Hit Hard**

The manufacturing downturn has hit low-income and minority workers in both urban centers and rural communities especially hard, tearing down ladders to the middle-class that manufacturing jobs traditionally provided workers without college educations.

African Americans lost jobs in every important manufacturing sector at a greater rate than any other population group. Black manufacturing employment fell from 2.1 million in 1998 to 1.7 million in 2002, a drop of 435,000 jobs or 20 percent. While Latino workers have fared better, they suffered comparable losses in industries where they tend to concentrate, such as apparel and textile products, steelmaking, computer and related equipment and metal working machinery.

Both groups experienced significant jumps in their unemployment rates between January 2001 and September 2003—the rate for African Americans rose from 8.2 percent to 11.2 percent and for Latinos the rate grew from 5.8 percent to 7.5 percent. African American poverty rates also grew as real incomes fell.

## **Good Jobs Have Been Lost—Permanently**

It is especially worrying that, even if the economy moves in a more positive direction, many communities, especially rural small towns, will have a much harder time than in earlier post-recession periods recovering from the current crisis in manufacturing. Many if not most of the lost jobs may never return.

Manufacturing enjoyed modest recoveries after the two other recessions of the past 20 years—the severe recession of the early 1980s and the shallower one of the early 1990s—when large numbers of manufacturing jobs were lost. In neither instance, though, did manufacturing employment reach its earlier high levels, and many displaced workers never found employment with pay and benefits comparable to those of their former manufacturing jobs. Nevertheless, in the prior periods, dislocated workers could aspire to new jobs created by the rapidly growing information technology and high-tech sectors.

But now even these job opportunities are disappearing. Along with the continuous flow of production jobs offshore, companies are increasingly exporting white-collar and information technology jobs to India, the Philippines and other low-wage regions of the world. In a survey of the world's 100 largest financial firms, Deloitte Research found these companies expect to shift \$356 billion worth of operations and about 2 million jobs to low-wage

countries over the next five years. Forrester Research Inc. predicts U.S. companies will move about 3.3 million white-collar jobs and \$136 billion in wages overseas in the next 15 years, a significant jump from \$4 billion in 2000.

In congressional testimony, Paul Almeida, president of the Department for Professional Employees, AFL-CIO, noted that this trend “is clearly accelerating... affecting workers all over the country, at every income and education level. Technology companies are laying off America's workers from high-paying desirable jobs while they add thousands of jobs overseas. Corporations are shifting jobs in call centers, accounting, engineering, computer and financial services offshore, among others. Some local governments have even begun to outsource administrative jobs.” What we are seeing is a fundamental economic restructuring, in which displaced manufacturing workers across America are finding that unlike earlier recoveries, there are not any other good jobs out there for them.

# State and Local Manufacturing Matters

**A**MERICA'S MANUFACTURING CRISIS is driven by a combination of forces, including globalization, flawed and unfair trade and tax policies, rising health care costs, an overvalued U.S. dollar (compounded by foreign currency manipulations) and other factors. The movement by firms to shed or export operations also is being enabled by the revolution in advanced information and telecommunication technologies, which makes it much easier and less costly for companies to coordinate their operations—and their supply chains—on a truly global basis.

Federal policies to address these trends clearly are necessary for turning around America's manufacturing crisis. The AFL-CIO's Industrial Union Council (IUC) has put forth a comprehensive policy agenda—outlined in its report *Revitalizing American Manufacturing*—and is promoting legislation aimed at:

- Redressing unfair trade and tax policies that create incentives for firms to move jobs offshore;
- Strengthening Buy American provisions governing Department of Defense procurement of manufactured materials, goods and equipment;
- Countering the adverse impacts of health care and legacy costs on U.S. manufacturers' competitiveness; and
- Reforming and enforcing labor laws—including support for the Employee Free Choice Act—that promote and protect good unionized manufacturing jobs.

In addition, in March 2004 the AFL-CIO filed a petition under Section 301 of the Trade Act of 1974 on China's workers' rights violations. The AFL-CIO also joined with the China Currency coalition and numerous industry trade organizations in a second Section 301 petition on China's currency

manipulation. Both called on the Bush administration to address practices that give China unfair competitive advantages in global markets. The administration rejected both petitions while acknowledging they were factually correct.

But, while these policies and initiatives are vital for reversing the crisis, they are not sufficient for rebuilding the nation's lost manufacturing capacity. To achieve this, we *also* need industrial investment and economic development policies specifically aimed at revitalizing manufacturing at the regional, state and local levels. In the end, all economics is local. To paraphrase Depression-era bank robber Willie Sutton, who when asked why he robbed banks reportedly answered, "because that's where the money is," we need to be concerned about state and local manufacturing because that's where the jobs are—and, it can be argued, where technical innovation and economic growth begin.

In short, while national policies for manufacturing revitalization are essential, special attention must be given to state and local strategies for addressing the manufacturing crisis for three reasons:

1. Manufacturing is a key driver of state and local economic growth.
2. Manufacturing is vital to the fiscal health of state and local governments.
3. Regional manufacturing clusters matter to the national economy, generating high-wage jobs, high levels of productivity, increased investment and innovation.

## **Manufacturing Is a Key Driver of Economic Growth**

Manufacturing remains a wellspring of economic growth for urban and rural communities throughout the nation.

Manufacturing accounts for a significant share of most states' gross state products (GSPs) and is a

leading source of jobs—especially for workers without college degrees—in almost every state. In 2000, manufacturing was 10 percent or more of the GSP of 42 states, about 20 percent or greater in 17 states and more than one-fourth in seven states.

Before the economic downturn in 2001, manufacturing provided at least one in 10 private-sector jobs in 41 states and more than one in five in a dozen states. It also accounted for, on average, one in six private-sector jobs in most of the nation's largest metropolitan areas. As noted previously, its importance to rural economies is even greater.

In addition, for every job in manufacturing, there is a multiplier effect of as many as three to four other workers employed by suppliers of goods and services to the manufacturers or to the plant workers themselves (such as restaurants, movie theaters and dentists).

## **Manufacturing Is a Mainstay of State and Local Fiscal Health**

Manufacturing firms and workers generate tax revenues vital to the fiscal health of states and localities. As states and municipalities hemorrhaged manufacturing jobs, their tax revenues shrank, contributing to large budget gaps that have forced cuts in needed public services, producing further job losses.

State revenues for the year ending in June 2003 were \$56.9 billion less than in the 12-month period ending in June 2001. State taxes now account for a smaller share of the U.S. economy than at any time in the last 30 years, except for the double-dip recession of the early 1980s.

By 2003, states were struggling with their worst financial crises since World War II as they confronted cumulative budget shortfalls the National Conference of State Legislatures estimates totaled \$200 billion over the previous three years. For 30 states identified as having shortfalls, the amounts totaled about \$39 billion to \$41 billion, or 7 to 8 percent of those states' expenditures. Many states continue to face large budget shortfalls for fiscal year 2005.

Because most states are required by law to balance their budgets, they have had to increase taxes—

mostly in regressive sales taxes, which disproportionately hurt low-income households—or cut spending for a wide range of services or both. For example, states have made cuts in Medicaid and other public health insurance programs, child care services, Temporary Assistance for Need Families (TANF), K–12 and higher education, programs for the mentally ill and homeless, services for people with disabilities, libraries, public works, public transit, corrections, public safety and emergency services.

As states cut back funds to aid local governments, the pain is spreading to counties and cities, leading to cuts in social services and programs that local governments provide, as well as increases in local sales and property taxes. But cutting services and increasing taxes are not permanent solutions to state and local fiscal problems. A long-term economic recovery also requires federal and state investments to spur job creation and boost state revenues. Manufacturing losses fueled the states' fiscal crises; reviving their manufacturing bases can help restore them to financial health.

## **Regional Manufacturing Clusters Matter**

Manufacturing is not spread evenly across the nation. It tends to concentrate in industry clusters—geographically proximate group of interconnected companies and associated institutions in related sectors, including product producers, service providers, suppliers, universities, trade associations and unions. They can span a region, a state or a single city, and even reach into neighboring nations. Just as manufacturing is vital to the economic health of regions, strong industry clusters are critical elements of a strong national manufacturing base.

Well-known clusters include auto equipment and parts in the Detroit region, metal manufacturing around Chicago, aerospace in Southern California, household furniture and textiles in North Carolina and microelectronics in California's Silicon Valley. While clusters tend to locate in urban areas, several rural areas have strong, competitive industry clusters, such as the thriving carpet industry around Dalton, Ga., houseboat production in the Appalachian part of Southern Kentucky, rural North Carolina's

hosiery clusters and Washington's Olympic Peninsula's wood products clusters.

The roles manufacturing clusters play in regional economies also benefit the national economy: They provide linkages to other sectors of the economy, create high-wage jobs, promote higher productivity and generate and spread the benefits from investment and research and development spending. Although global economic forces and technological advances may be eroding some of the advantages of proximity, economic development experts tout the power of industry clusters because of the competitive advantages they impart to industries and firms, regional economies and the national economy.

Industry clusters confer competitive advantages to related industries and firms through proximity to other product producers, service providers, suppliers of specialized inputs and infrastructure, supporting institutions (universities, community colleges, trade associations, unions, venture capital and government agencies) and pools of skilled, experienced workers. For example, Silicon Valley's high-tech clusters benefited from the dense networks of related firms, professional workforces and a concentrated pool of venture capital in that region.

Industrial clusters are key drivers of regional economic growth. In Pennsylvania, where manufacturing accounts for the largest share of state output and is the third-largest employer, 16 industries, led by pharmaceuticals, electrical equipment and printing, are principal drivers of the state's economic performance. In Illinois, in 2000 four industry clusters—metals, electrical, printing and food manufacturing—accounted for about two-thirds of both total output and employment in the state's manufacturing sector, and for 15.4 percent of the state's GSP.

Industry clusters foster technological innovation. Although some drivers of innovation may be

national in scope, many if not most are regional in nature and tied to specific regional industrial clusters. Technological spillovers are magnified by the proximity of interdependent firms and industries. When there are a large number of related industries, new innovations spread more easily among firms near them, increasing opportunities for new start-ups and markets.

Strong industry clusters are important to small and medium-sized manufacturing (SMMs) enterprises, which account for 98 percent of the nearly 400,000 manufacturing establishments and employ two-thirds of the U.S. manufacturing workforce. SMMs, which supply most of the components, parts and subsystems for large original equipment manufacturers (OEMs), tend to locate close to their customers. They are especially vulnerable to global competition because they cannot as easily relocate to foreign locations as the larger manufacturers they serve.

Industries embedded in strong regional clusters tend to be relatively more resistant to the global pressures than those in weak clusters or that are isolated. The hosiery industry concentrated in North Carolina's Catawba Valley, which produces about one-third of the nation's socks, has been relatively more resilient in the face of global competition than industries such as textiles and furniture, which have lost large numbers of jobs because of foreign competition.

That manufacturing exists and thrives in regional clusters helps explain why a focus on maintaining and strengthening state and local manufacturing is important. The further exporting of U.S. manufacturing will unravel manufacturing clusters that long have been the fount of U.S. economic growth and technological innovation. Hence, the development and strengthening of regional manufacturing clusters must become an important goal of policies to help America retain and rebuild its manufacturing base.

# A High-Road State and Local Manufacturing Agenda

**S**TATES AND COMMUNITIES can do a great deal to address the manufacturing crisis, even though the forces of globalization may appear to overwhelm their efforts to retain or create new manufacturing jobs. Alleviating the manufacturing crisis on Main Street will require a mix of federal, state and local policies and programs, as well as practical strategies involving state and local officials, employers, unions and community groups.

State and local initiatives to retain and revitalize manufacturing can be combined into a three-part agenda. Specifically, these initiatives should:

1. Support federal policies, such as those advanced by the AFL-CIO Industrial Union Council, that discourage companies from exporting American manufacturing jobs;
2. Promote the retention and creation of good manufacturing jobs at the state and local levels;
3. Help U.S. manufacturing workers remain competitive in the global economy.

## Supporting Federal Policies That Discourage Job Exporting

If we don't confront the problems of globalization and flawed policies—unfair trade practices, foreign currency manipulation, labor rights violations, corporate tax breaks for moving offshore and high health care and legacy costs—that put American manufacturers at a competitive disadvantage, state and local governments will have a much harder time reviving their manufacturing bases. State and local elected officials and political leaders therefore must actively support policies that address the crisis at the national and international levels. This can take two forms:

1. They can act locally to raise public awareness and put pressure on Washington, D.C.;

2. They can take administrative and legislative actions complementary to national policies.

## Acting Locally on National Issues

State and local government officials, as well as business, labor and community leaders, need to highlight and raise public awareness about the nature and extent of the manufacturing crises within their jurisdictions and the importance of federal policies to address them. They can mobilize their constituents and political representatives to support policies that level the playing field for U.S. manufacturers and workers. For example, they can:

- Lobby Congress and the White House, including working through state and local official bodies (such as the National Governors' Association, National Council of State Legislators and the Conference of Mayors) to push for national policy changes;
- Convene conferences, hearings and leadership summits that highlight and raise public awareness about the manufacturing crisis and the importance of federal policies that address it;
- Establish blue-ribbon panels of public- and private-sector (including labor) leaders to oversee actions and conduct studies of the problem;
- Create new governmental offices that promote and enforce state and local interests in addressing manufacturing issues (such as trade);
- Pass resolutions and ordinances endorsing or expressing concerns about national policies and legislation that address manufacturing issues (such as free trade agreements);
- Organize public events and demonstrations that mobilize public support around specific issues.

A growing number of jurisdictions have begun to engage in these kinds of actions (see Box 2). For example, the governors of Pennsylvania and Michigan have convened high-profile manufacturing summits in their states. Several states and cities have passed resolutions and ordinances stating their concerns about the impact of international trade agreements on manufacturing jobs and

economic development. In April 2004, the governors of Michigan, Pennsylvania and Wisconsin addressed a congressional forum on manufacturing in Washington, D.C. In May 2004, Maine passed the Maine Jobs, Trade and Democracy Act in an effort to give the state a greater say in response to the impact of U.S. trade agreements on its economy and jobs.

BOX 2

***Acting Locally on National Issues***

A growing number of state and local elected officials, labor organizations and community groups are taking the initiative to raise public awareness about the manufacturing crisis and mobilize public support for federal policies that address the crisis from the national to the local levels.

- Governors have pressured Congress and the White House to address the manufacturing crisis. Gov. Jennifer Granholm (D) of Michigan and Pennsylvania's Gov. Edward Rendell (D) convened leadership summits to explore ways to revive manufacturing in their states. Both events had strong labor and industry participation and pushed for measures that could be implemented at the local, state and national levels.
  - Participants in the Michigan summit in December 2003 included Detroit's automakers, major auto suppliers, chemical companies, furniture makers and labor groups, including the UAW. Similarly, Indiana legislators created a panel of political, business and labor leaders to study the state's loss of manufacturing jobs and mobilize lobbying efforts to get Washington's attention.<sup>6</sup>
  - The Pennsylvania manufacturing summit in March 2004 identified steps to influence federal policies along with economic development measures designed to retain and create good manufacturing jobs (see Box 6). Gov. Rendell promised to join with governors from other industrial states to lobby Washington, D.C., for changes at the federal level, such as pressuring the White House to enforce trade regulations and take a tougher stand at the World Trade Organization (WTO). He also announced the creation of an Office of Fair Trade Practices to work on trade compliance issues through the U.S. Trade Representative, WTO and other channels to help Pennsylvania manufacturers of all sizes understand their rights and challenge illegal trade practices.
  
- In the Capitol Hill Forum on Manufacturing in April 2004, the governors of Michigan, Pennsylvania and Wisconsin called on Congress and the Bush administration to partner with manufacturing states to create and retain high-wage manufacturing jobs. Gov. Granholm promised to work with other governors—and through the National Governors Association—to lobby for federal policies addressing the issues of trade, currency manipulation, pensions and legacy costs. Responding to Granholm and other state leaders, the Michigan congressional delegation sent a letter to the president outlining 14 steps to respond to the manufacturing downturn.

*continued on next page*

### ***Acting Locally on National Issues (continued)***

- City governments in Philadelphia, Milwaukee, Toledo, Ohio, and others have passed resolutions opposing trade legislation, such as Fast Track trade promotion authority and the Free Trade Area of the Americas (FTAA) agreement, to send a message to Congress. The National League of Cities, National Conference of State Legislatures and similar state and local representative bodies have raised concerns about the impacts of international trade agreements on the ability of state and local lawmakers to promote economic development.
- The labor-backed Maine Fair Trade Campaign pushed the Maine Jobs, Trade and Democracy Act—signed into law May 10, 2004—to strengthen the state’s voice in the debate over future trade agreements and their effect on local democracy and the economy of Maine. The bill creates a citizen commission empowered to assess the legal and economic impacts of trade agreements, hold public hearings and make recommendations to the state legislature, the congressional delegation and U.S. trade negotiators.
- The Ohio AFL-CIO is leading advocacy efforts to address Ohio’s jobs crisis.<sup>7</sup> It sponsored a major conference on jobs and manufacturing and a study on Ohio job losses related to trade. It also is working with the Ohio General Assembly on legislation to prohibit the outsourcing of Ohio jobs in connection with state funding, provide economic development incentives for job creation and retention and eliminate incentives that do not create jobs. It also is backing two fair trade resolutions. The state federation encourages local government, business and unions to cooperate in initiatives—such as the Stark County Manufacturing Advocacy Council and Northeast Ohio Campaign for American Manufacturing—to strengthen manufacturing and stimulate local economies. (See [www.ohafclcio.org](http://www.ohafclcio.org) for more information.)

<sup>6</sup>“Indiana to Study Loss of Manufacturing,” *Manufacturing & Technology News* ([www.manufacturingnews.com](http://www.manufacturingnews.com)), Sept. 3, 2003.

<sup>7</sup>Ohio AFL-CIO, “Jobs for Us: Ohio AFL-CIO Proposals to Preserve and Create Ohio Jobs,” Ohio AFL-CIO Jobs and Manufacturing Conference, Columbus, Ohio, May 5, 2004. See [www.ohafclcio.org](http://www.ohafclcio.org).

### **Enacting Complementary Policies**

State and local policies, through legislation, ordinances and administrative directives, can complement national initiatives, recognizing that issues such as trade, corporate tax loopholes and health care ultimately require national solutions (see Box 3). If enough states move forward with legislation and programs to address related problems within their jurisdictions, this may prod reluctant leaders in Washington, D.C., to enact comprehensive

policies at the national level. For example, several states are exploring measures to reform health care and cut prescription drug costs. At least 38 states are looking at legislation to prevent exporting public- and private-sector jobs, which affects both white-collar and production workers. The governors of eight states have sent letters to U.S. Trade Representative Robert Zoellick withdrawing prior consent or refusing to be bound by procurement rules of any new trade agreement.



### **States Enacting Complementary Policies**

States can take administrative and legislative actions that parallel or complement national policies addressing manufacturing issues. In some instances, these put into place measures that attempt to address problems at the state level that ultimately require—and hopefully prod—national solutions. State labor federations, central labor councils and individual unions have taken leading roles in many of these initiatives.

- Labor federations and fair trade coalitions in many states are pressuring governors to refuse to sign onto the procurement rules of future trade pacts. Six governors (from Iowa, Maine, Minnesota, Missouri, Oregon and Pennsylvania) sent letters to the U.S. Trade Representative (USTR) rescinding previous consent to be bound by procurement rules of new trade agreements. Two governors (in Montana and Wisconsin) sent letters saying their states, while not rescinding prior consent, refused to be bound by future trade agreements.<sup>8</sup> At least 23 states originally supported a USTR request in September 2003 to extend limits on state procurement under the Agreement on Government Procurement (GPA) to new trade agreements, such as the Central America Free Trade Agreement (CAFTA) and the Australia Free Trade Agreement. These constrain state governments' ability to promote workers' rights through purchasing decisions and could prevent states from giving preferences to businesses from economically depressed areas or invoking Buy American and Buy Local rules on procurement from domestic and local suppliers.<sup>9</sup>
- Prodded by union and community groups, at least 38 states have introduced legislation to stop the exporting of jobs in their purchasing of goods and services. In May 2004, Tennessee's Gov. Phil Bredesen signed into law the first outsourcing bill in the nation, allowing the state to give preferences in awarding contracts to companies that have not or do not plan to export work. The California Assembly has passed two outsourcing bills, now before the state Senate, one of which prohibits state contracts from being awarded to companies that export work. The National Labor Caucus of State Legislators is pressuring states to adopt legislation that would ensure state resources and taxpayer dollars do not go to companies that ship jobs offshore.
- Several states, such as Maine, Wisconsin and California, are exploring legislative initiatives, many of which are union backed, to reform health care and cut prescription drug costs. By expanding health care coverage and cutting skyrocketing health care costs, these initiatives would help local employers reduce the costs of employees' health care benefits and improve their competitiveness against foreign companies.

<sup>8</sup>M. Schroeder, "Governors Rescind Agreement to Comply with Trade Pacts," *The Wall Street Journal*, May 14, 2004.

<sup>9</sup>E. Drake, "International Trade Agreements and Government Procurement," AFL-CIO, Washington, D.C., May 2004.

### **Promoting Retention and Creation of Good Manufacturing Jobs**

State and local governments have many tools and resources at their disposal to foster industrial retention, economic growth and job creation. Every state and most cities and towns have some type of economic development and planning capability devoted to promoting economic growth and

adjustment. They long have employed tax incentives, subsidies and public infrastructure investments to attract and recruit new industry. They must now turn their resources towards promoting high-road economic development aimed at the retention and growth of manufacturing capacity and good jobs in their jurisdictions.

High-road economic development encourages, enables and expands high-road, high-value-added business practices within regional, state and local economies. High-road businesses invest in promoting innovation, modernizing their operations with the most advanced equipment and technology and developing the skills and abilities of their workforce. Such businesses recognize that a well-paid, high-skilled, involved labor force is critical to enhancing their productivity, product quality and profitability and hence their abilities to compete in global markets. At every level, high-road strategies are needed to reverse the vicious low-road cycle now afflicting American manufacturing and turn it into a virtuous circle of expanding U.S. manufacturing competitiveness and job creation.

Union organizations, from union locals to central labor councils and state federations to international unions, can play and have played leadership roles in implementing high-road economic development strategies in regions, states and communities around the nation. In the face of global economic threats, state and local officials, unions, community groups and working families are not defenseless. Even as they mobilize in support of national manufacturing policies, they have the means available to stem the hemorrhaging, and foster the retention and creation, of good jobs within their own communities.

Specifically, a high-road economic development strategy for revitalizing manufacturing should:

- Offer incentives and set standards for manufacturers willing to commit to high-road business practices;
- Promote high-road economic development strategies aimed at retaining and creating good manufacturing jobs;
- Strengthen and expand industrial clusters, which are primary drivers of regional, state and local economies;
- Leverage federal programs and resources to support high-road economic development.

## **Promoting High-Road Business Incentives and Standards**

All too often, state and local government leaders have pursued low-road strategies that encourage companies to make location decisions about new or existing facilities at the expense of communities and workers—and frequently at the expense of other regions. Instead, states and localities need to pursue high-road strategies that link positive, high-road standards and criteria—such as the creation of good, well-paid jobs, increased tax revenues, economic growth and public accountability—to the incentives they offer to attract new private investment.

**Low-road economic development.** State and local governments have long competed to attract new business investment as a cornerstone of their economic development strategies. With increased globalization and capital mobility, enabled by the falling costs of transportation and communications, this competition has intensified, not only between states and between cities, but also increasingly with other nations. Corporations, the “sellers” of new investment, have become more adept at pitting jurisdictions against each other, pushing states and localities to give away more and more of the “candy store.”

To make their business climates more enticing to increasingly footloose corporations—to tip the location decisions of companies looking to build new or relocate existing facilities—many jurisdictions adopt low-road approaches that weaken labor and environmental standards and offer large tax breaks, subsidies and other incentives that reduce or divert state and local revenues. They fuel a race to the bottom among localities that compete by undermining their tax bases and sacrifice much-needed public services in desperate efforts to attract new investment. Low-road approaches tend to cater to cost-cutting, anti-union, low-wage companies and increase the competitive pressures on firms trying to survive without cutting jobs, wages and benefits.

**Taking the high road.** With roots going back to the plant closing struggles of the 1980s and sparked, in part, by Good Jobs First Executive Director Greg

LeRoy's 1994 study, *No More Candy Store*, a movement of state and local leaders, academics and community organizations has emerged, promoting alternative policies that address the harmful effects of location subsidies on communities and working families. Many states and municipalities require firms receiving subsidies to provide and maintain good jobs and meet desired economic development and community standards. Many also attempt to discourage or penalize firms for not meeting such requirements. Some of the most important types of measures include:

- Job quality (wages, job stability, health care benefits and health and safety) and community standards (jobs created, economic impacts, tax revenues and environmental impact) attached to subsidies and tax breaks;
- Clawback provisions requiring companies to pay back part or all of their development subsidies if they fail to live up to commitments made to receive these incentives;
- Fiscal disclosure and accountability requirements that generate annual company-specific data about subsidies to enable greater citizen participation regarding economic development spending and outcomes.

Box 4 contains more in-depth information and examples of these measures and the extent to which they are being applied by states and local jurisdictions.

Such high-road standards and incentives can play an important role in promoting the revitalization of state and local manufacturing. Incentive standards and public accountability requirements can be an effective strategy for attracting manufacturing firms that create quality jobs with family-supporting wages, health benefits and career prospects. They also offer a way for governments to monitor the use of subsidies to ensure taxpayers' money is not producing poorly paying jobs and undermining public services.

## **Focusing on Industrial Retention and Job Creation**

Business attraction incentives remain important tools for economic developers. But it is equally important to focus on the goals of business retention and job creation. In contrast to low-road business recruitment and attraction, high-road economic development seeks to create a high-road business climate that encourages and helps existing manufacturers retain and grow good jobs, rather than closing or exporting their operations.

In addition to incentives, which can help tip manufacturer's decisions towards keeping a plant open instead of relocating to a low-cost location, states and municipalities offer other forms of assistance that help U.S. manufacturers be more globally competitive and less inclined to move offshore. They can also create favorable conditions for and facilitate investment in new cutting-edge technologies—to “grow” new manufacturing enterprises and advanced services—that lead to the creation of new, high-quality jobs.

Several elements of high-road economic development that many states and localities already have undertaken to retain and create good manufacturing jobs include:

- Early warning systems that trigger rapid response and retention strategies and services to avert plant closures and layoffs;
- Strategic planning processes involving all stakeholders, especially labor, to evaluate the economic situation and assets of a region and develop an economic development plan based on this assessment;
- Increased availability and access of financial resources and services to help manufacturers restructure and expand their operations and to support new entrepreneurial enterprises in emerging technology areas;
- Industrial modernization services that help manufacturers upgrade and restructure their operations to increase their competitiveness;

## ***High-Road Standards and Incentives***

States and cities typically have offered very generous incentives and tax breaks to attract new businesses or keep existing ones from moving away. All too often companies take the offers but close shop not long after, leaving states and towns poorer and hundreds or thousands of workers out of jobs. Companies that benefit from development subsidies often fail to live up to promises to create jobs or only create low-wage jobs that cannot support families. Many states hand out no-strings-attached subsidies without holding companies accountable for how they use the money.

Tired of giving away the “candy store” in futile attempts to attract or retain businesses, more and more states and cities are applying high-road criteria and requiring greater public accountability in granting companies location incentives and subsidies.

**Job quality standards.** A November 2003 study by Good Jobs First found that at least 89 U.S. jurisdictions—43 states, 41 cities and five counties—apply job quality standards (wage, health care and full-time hour requirements) to firms receiving development subsidies. Most local standards have been adopted through living wage laws. Combined with the growing number of state standards, there now are 165 job quality precedents. The standards have been applied to every type of subsidy, including tax credits, training subsidies, industrial revenue bonds, loan programs, enterprise zones and tax increment financing.

**Clawback provisions.** A clawback requires a company to pay back all or part of a development subsidy, such as a grant, loan or tax break, or be barred from receiving future subsidies if it fails to fulfill its commitments in a subsidy agreement or provision. Common requirements include number of jobs created, wage levels of new jobs or all jobs, level of capital investment or a specified length of time a company must stay at a subsidized location. At least 19 states have passed development subsidy statutes with clawback provisions.

**Fiscal disclosure and accountability.** Public disclosure about subsidies is key for ensuring public accountability and participation in economic development. It refers to annual, company-specific reporting of subsidies received and benefits produced, such as jobs created, wages and benefits. Reliable data collection and reporting are necessary to measure the effectiveness of subsidies and monitor the performance of subsidized companies. A comprehensive disclosure law covers all state, regional and local development agencies; gives the public access to information before and after a deal is negotiated; and requires annual, company-specific, deal-specific, publicly available reports on subsidies summarizing the original deal and actual outcomes. Minnesota—the first state to pass an economic development accountability law—and Maine have comprehensive reporting laws for subsidy recipients, including relocation disclosure requirements. Eight states have lesser forms of company-specific disclosure requirements.

**Targeted assistance.** Various other measures to encourage high-road—and discourage low-road—economic development have been proposed. Many experts argue that business attraction incentives should be targeted to industry sectors, such as manufacturing, that produce high-quality jobs, rather than sectors such as retail that create low-end jobs and lower tax revenues. Others want targeted assistance for creating jobs in economically distressed areas.<sup>10</sup>

Growing evidence shows that high-road standards and incentives not only do not hurt the business climates of states and communities, in many instances they have helped. For more information about high-road economic development subsidies and for model legislation visit the websites of Good Jobs First ([www.goodjobsfirst.org](http://www.goodjobsfirst.org)) and the AFL-CIO ([www.aflcio.org/issuespolitics/stateissues/fiscal](http://www.aflcio.org/issuespolitics/stateissues/fiscal)).

<sup>10</sup>T.J. Bartik, “Incentive Solutions,” Paper prepared for Reining in the Competition for Capital Conference, Humphrey Institute of Public Affairs, University of Minnesota, Minneapolis, Feb. 27–28, 2004.

■ Technology and innovation investments to support research, development and commercialization of advanced manufacturing and product technologies, especially for small and medium-sized manufacturers;

■ Investments in areas of public need, such as energy, transportation, waterworks and other public infrastructure, including support for research and development and entrepreneurial activities that support these initiatives;

■ Buy Local and Buy American requirements on public procurement, which require specified shares of state and local government purchases of materials and products to contain local and domestic content.

These elements are described in more detail in Box 5. Many of the measures overlap, and they often complement each other in comprehensive economic development initiatives. Some states, such as Pennsylvania, incorporate several elements in a comprehensive set of initiatives designed to strengthen manufacturing (see Box 6). Many also entail forging partnerships between state and local entities with federal programs and the private sector. The Apollo Alliance, a labor-led initiative endorsed by the Industrial Union Council and the AFL-CIO, is a nationwide effort to create partnerships at the state and local levels involving unions, business, governments and community interests to promote job-creating investments in clean energy and energy-efficient technologies (see Box 7).

BOX 5

***Elements of High-Road Economic Development***

**Early warning and layoff aversion.** Dozens of states and communities have instituted early warning strategies that utilize industry and labor market systems and networks to monitor and predict plant closures. These mechanisms trigger implementation of rapid response and retention services to maintain and strengthen businesses to prevent plant closures and layoffs. For example, Pennsylvania’s Department of Labor and Industry funds the Steel Valley Authority’s Strategic Early Warning Network (SEWN), which provides business retention services to troubled manufacturing companies throughout Western Pennsylvania. Some states (such as California) have passed enhanced Worker Adjustment and Training Notification (WARN) Act legislation strengthening advance notice requirements. Many state labor federations are helping provide rapid response and adjustment help to workers and companies.

**Strategic planning for industrial retention and job growth.** The first step in successful economic development is to bring together major stakeholders—unions, business, community groups, government and academia—to evaluate the economic conditions, needs and assets of a region and develop an economic development plan based on this assessment. States and local governments often provide seed grants to conduct economic studies and develop such plans. The plans need to emphasize leveraging state, federal, local and private-sector resources to retain and build upon existing manufacturing capacity, as well as generate new industries and jobs. Business attraction and recruitment incentives (such as tax abatements) should be complementary strategies—not the primary focus of these plans. A Working for America Institute study, “The State of Working Alabama” under the initiative of the Alabama AFL-CIO, is an example of a labor-driven manufacturing strategy that entailed the participation of several unions and employers in the state (for more information, see [www.workingforamerica.org](http://www.workingforamerica.org)).

**Increased capital access.** State and local governments offer programs (loan funds, loan and equity guarantees and tax credits) that can increase manufacturers’ access to capital. Many leverage sources of private venture and equity capital for technological innovation, which are key to commercializing new

*continued on next page*

## ***Elements of High-Road Economic Development (continued)***

products and processes. Some states allocate portions of their public pension fund portfolios—for example, California’s Public Employee Retirement System’s (CalPERS’s) economically targeted investments, Ohio PERS’s goal of 3 to 5 percent of its private equity investments, Connecticut Retirement Plans & Trust Funds’ investments in underserved markets—towards in-state and regional economic investments. States also support community development financial institutions that invest in small and microbusinesses. Some initiatives help ailing manufacturers restructure their finances and arrange buyouts by new owners, including employee stock ownership plans, to keep them in operation.

**Industrial modernization assistance.** Many states and cities provide services—technological modernization, business, organizational, financial, regulatory compliance, operations and cost management and marketing assistance—that help local industry, particularly small manufacturers, become more competitive. These services help businesses restructure their organizations, adopt high-performance workplace practices, modernize plants and equipment, introduce and adopt new technologies, find new and expand existing markets, train and upgrade their workforces and more. Pennsylvania’s Ben Franklin Technology Network and Industrial Resource Centers and Ohio’s Edison Technology Centers are among the best-known state programs providing industrial services.

**Technology and innovation investments.** Many states provide grants, subsidies and incentives to private firms, universities and research institutes for technology research and development and diffusion to foster product and process innovations, productivity growth and commercialization of new technologies. These include research and development tax credits, technology innovation and transfer centers, technology-based economic development offices and modernization assistance centers, such as those mentioned previously in Pennsylvania and Ohio. Many of these initiatives are implemented in conjunction with and enhanced by federal programs—most notably the U.S. Commerce Department’s Manufacturing Extension Partnership—and through public–private sector partnerships. These should be expanded and targeted specifically towards strengthening existing manufacturing, as well as spawning new industries.

**Investments in areas of public need.** State and local governments can target subsidies, tax incentives, bond issues, their own procurement and other resources toward meeting important public needs, such as rebuilding and modernizing public infrastructure (including sewage and water works), expanding energy resources and improving energy efficiency, fostering environmental protection and promoting advanced transportation systems (such as high-speed rail). Such investments in the service of public needs can generate significant economic stimulus by fostering technological innovation, spawning new cutting-edge industries and creating new jobs for current and future generations of workers. One such program is the labor-backed Apollo Alliance (see Box 7), which has proposed a 10-point plan for generating economic development and jobs through investment in clean energy.

**Buy Local and Buy American procurement.** As with federal Buy American requirements, which specify required amounts of domestic content for items purchased by federal agencies (especially defense agencies), state and municipal governments can stimulate demand for locally and domestically made products through their own procurement. This can include targeted state and local investments in public goods linked as much as possible to state and local manufacturing capacity, with Buy Local and Buy American procurement requirements. As in construction project labor agreements, government procurement provisions could stress buying local and domestic union-made products.

### ***Pennsylvania's Manufacturing Initiatives***

On March 23, 2004, more than 200 business and labor leaders from across Pennsylvania attended the Governor's Manufacturing Summit, where Gov. Rendell announced several initiatives designed to strengthen manufacturing in the state. Aside from actions aimed at influencing national policy on fair trade issues and creating a state Office of Fair Trade Practices (see Box 2), many of the initiatives, aimed at fostering economic growth, industrial retention and job creation in the state, have been approved by the state's General Assembly. These include:

- Establish the Manufacturing Working Group as part of the Economic Development Cabinet;
- Build on innovative public-private partnerships like the Citizens Job Bank program that will provide low-cost financing to help both existing and prospective Pennsylvania manufacturers expand operations and create jobs;
- Make the \$1.1 billion Stimulus Package (under consideration at the time of the summit and ultimately passed by the state's General Assembly) work for manufacturing;
- Invest \$2.5 million in workforce development funding for signature projects identified by the private-sector leadership of Industry Partnerships, which build on an earlier initiative to provide seed money for nine regional manufacturing Industry Partnerships organized by industry cluster;
- Increase support for Pennsylvania's network of Industrial Resource Centers by \$5 million;
- Target a portion of the resources of the Ben Franklin Technology Partnerships to manufacturing firms;
- Redirect a portion of state pension holdings to investments in Pennsylvania manufacturing;
- Designate a Manufacturing Ombudsman to help firms access economic development, workforce and other resources.

### ***The Apollo Alliance***

The Apollo Alliance is a labor-driven coalition to develop energy alternatives and promote energy efficiency through public and private investments. An aggressive effort to expand domestic production of highly efficient manufactured goods, such as hybrid cars, advanced internal combustion engines and energy efficient appliances, will prompt new investment toward existing U.S. plants and workers rather than allowing the market to become dominated by imports and foreign transplants. Increasing domestic investment in more efficient manufacturing processes will spur new capital investments and improved use of skilled labor in the operation and maintenance of production facilities. An investment of \$300 billion in federal money over 10 years in Apollo's program could add more than 3.3 million jobs to the economy and stimulate \$1.4 trillion in new GDP. As of May 2004, the Apollo Alliance established working groups in more than 12 states and cities and has exploratory efforts in eight other locations to pursue elements of its 10-point plan. For example, California Apollo helped shepherd the passage of a \$210 million investment commitment by CalPERS in the clean energy sector. For more information, go to the Apollo Alliance website at [www.apolloalliance.org](http://www.apolloalliance.org).

## Strengthening and Expanding Industry Clusters

Encouragement of industrial clusters can be an effective strategy for fostering industrial retention in regional and local economies threatened by global competition. Cluster development strategies build upon, strengthen and expand the core industrial capabilities within regions and communities. This approach recognizes that, first, industries and their supplier chains cluster geographically and, second, in every region, industry clusters are primary drivers of state and local economies.

States and communities that have suffered manufacturing losses can help revive their economies by making cluster development the focal point of their economic development efforts. Public policies to promote cluster development therefore should:

- Target economic development resources to strengthen the core industry clusters of a region, state or community;
- Strengthen and create intermediary industrial organizations and networks that support the development of manufacturing clusters.

### Targeting economic development resources.

Many state and local economic developers have adopted Harvard Business School professor Michael Porter's well-known framework for evaluating the competitiveness of industry clusters in their regions and for identifying the most useful strategies for cluster development. This framework outlines four principal determinants of a cluster's competitiveness, each of which can be enhanced by applying high-road economic development resources and tools:

- Increase the availability of high-quality, specialized inputs available to firms necessary to compete in a given industry, such as human resources, information, scientific, technological and physical infrastructures and natural resources;
- Strengthen and broaden local market demand for the industry's product or service;

- Improve access to capable, locally based suppliers and firms in related fields;

- Enhance the local business environment to encourage investment, sustained business upgrading and an open and vigorous competition among locally based rivals.

In an example of how this approach might be applied, a Center on Wisconsin Strategy study of component manufacturing in Wisconsin noted that public policies are needed to fortify the linkages that diffuse knowledge and advance innovation within clusters and generate regional cluster competitiveness, such as supporting supplier modernization, industrial learning and economic coordination.

### Strengthening intermediary organizations.

Economic development experts also argue the need for policies to support the creation and maintenance of intermediary organizations that promote dynamic industrial clusters. Intermediary organizations are independent nongovernmental, private-sector or quasigovernmental entities (such as public-private partnerships) that provide services to help firms within clusters develop their competitive capacities. They can play a key role in developing national and global strategies to promote cluster companies and attract new firms. They also can help cluster firms by promoting greater access to new markets and market information, workforce development and training resources, facilities and equipment, financing and investment capital, research and development and business development and modernization services. They may also encourage public-sector investments in infrastructure, capital access and other resources to benefit cluster companies.

Some experts argue for policies that encourage the formation or strengthening of interfirm networks, which can serve similar functions as intermediaries in fostering clusters. Networks of firms that come together to share information and jointly pursue common objectives (such as workforce development, research and development and marketing) have become increasingly common over the past decade, often aided by state and federal programs. For example, the Wisconsin Regional Training



Partnership—a network of labor unions and manufacturers to promote workforce development and firm competitiveness—and the Wisconsin Manufacturers Development Consortium—a consortium of large manufacturers to upgrade component suppliers—serve as cluster intermediaries aimed at

increasing the competitiveness of the Milwaukee area’s major manufacturing industries.

Examples of intermediary institutions and networks formed to strengthen regional industrial clusters are described in Box 8.

BOX 8

**Cluster Intermediaries**

In regions with significant industrial clusters, intermediary bodies, often involving third-party (usually nonprofit, nongovernmental or quasigovernmental) organizations, play multiple roles, providing technical assistance, facilitating organizational change, coordinating and leveraging training resources and otherwise helping to increase the competitiveness of large, midsized and small firms and their suppliers. These intermediaries often take the form of multifirm or multifirm–multiunion networks or consortia, though others, while usually sponsored or supported by multiple firms or unions, are essentially technical assistance organizations. Although they generally serve the sectors and region in which they are located, their services often extend to other communities and regions around the nation and occasionally to other countries.

**Wisconsin Regional Training Partnership (WRTP) and Wisconsin Manufacturers**

**Development Consortium (WMDC).** The WRTP, founded and driven by a labor–management partnership, serves as a labor market intermediary in the Milwaukee–Southeastern Wisconsin region. WRTP, working in conjunction with the Wisconsin Manufacturing Extension Partnership (WMEP) and local technical colleges, seeks to build labor–management cooperation and foster high-quality jobs, assisting firms in incumbent worker training, modernization and future workforce development. Originally based in durable goods manufacturing, and now extending to other sectors including health care and hospitality, WRTP has over 125 member firms and unions, representing roughly 60,000 workers. See [www.wrtp.org](http://www.wrtp.org) for more information.

The WMDC, which complements WRTP’s work, was formed in 1998 to improve supplier performance and to promote progressive supply management practices in Wisconsin’s metal manufacturing sector. Principal membership includes several large original equipment manufacturers (OEMs). By leveraging the development resources of the WMEP and the collaborate capacity of its OEMs, WMDC seeks to strengthen the Wisconsin manufacturing base by facilitating information flow between OEMs, parts suppliers and training providers; sharing the costs, risks and benefits of widely needed services (technical assistance and training); and promoting mutual learning.<sup>11</sup>

**Steel Valley Authority (SVA).** The city of Pittsburgh and 11 steel mill towns founded the SVA in 1986 to retain and revitalize the region’s economic base in the wake of the economic devastation in the Western Pennsylvania region over the previous decade. SVA pioneered the Strategic Early Warning Network (SEWN), which identifies and assists at-risk manufacturers in 21 Western Pennsylvania counties and develops plans for ownership succession, business planning and securing financial capital. SEWN has helped retain and revive many industrial enterprises, saving or creating nearly 8,000 jobs. It also

*continued on next page*

### **Cluster Intermediaries** (continued)

works with the United Steelworkers of America and others to build support for regional investment funds through the Heartland Labor Capital Project, a broad-based, U.S.–Canada working group that supports worker-friendly investment vehicles and local development funds. For more information, see [www.steelvalley.org](http://www.steelvalley.org) and [www.heartlandnetwork.org](http://www.heartlandnetwork.org).

**Garment Industry Development Corp. (GIDC).** GIDC is a nonprofit consortium of labor, industry and government dedicated to strengthening New York’s apparel industry and retaining fashion jobs. New York is the fashion capital of the United States, with 4,000 garment manufacturers and 80,000 garment workers. GIDC’s union-driven labor–management efforts focus on broad industry needs as well as the needs of individual workers and firms in the region. Its wide range of services include skills training for management and workers, technology and engineering assistance, export promotion and domestic sourcing. GIDC operates the Fashion Industry Modernization Center, a centralized training and technology center providing technology demonstrations, training and education services and management assistance serving more than 200 manufacturers each year. For more information, see [www.gidc.org](http://www.gidc.org).

**Center for Labor and Community Research (CLCR).** The CLCR is a nonprofit consulting and research organization in Chicago specializing in new approaches to community and economic development, with particular expertise in manufacturing and creating partnerships between labor, community and business. It was founded in 1982 by local union and community leaders in reaction to the wave of plant closures and its impact on local communities and working families at the time. The four components of its work include its high-road strategic vision for economic and social development; its signature projects applying this strategy to specific sectors, such as its work with the Chicago food industry (including the Candy Institute that works with stakeholders in this key economic sector); research and consulting services; and its assistance building coalitions and networks, both locally and nationally, that share and advance its strategic vision. For more information, see [www.clcr.org](http://www.clcr.org).

**Hosiery Technology Center.** This center, created by the North Carolina hosiery industry in 1989 and funded in part by the U.S. Department of Commerce’s Manufacturing Extension Partnership, has become a focal point for small firms to test and adapt new technologies and train hosiery industry workers to make more effective use of new technologies. It has a physical presence in two major regions of North Carolina where hosiery manufacturing is centered: the Catawba Valley Community College–based center, which has served clients in more than 40 states, and at Randolph Community College, which serves as a resource for makers of pantyhose, tights and other fine gauge legwear as well as producers of socks. Its primary mission is to help North Carolina’s hosiery industry, which employs about 35,000 workers in numerous very small firms, compete in a global environment through training, research and development, testing, e-commerce and new product development.<sup>12</sup> For more information, see [www.legsource.com](http://www.legsource.com).

<sup>11</sup>M. Vidal, J. Whitford, J. Rogers and J. Zeitlin, “Challenges and Options for Wisconsin Component Manufacturing: Final AMP Report to the Wisconsin Manufacturing Extension Partnership,” The Center on Wisconsin Strategy, Madison, Wis., June 2003.

<sup>12</sup>M. Drabenstott, “New Troubles at Rural Factories: New Implications for Rural Development,” *The Main Street Economist*, Center for the Study of Rural America, Federal Reserve Bank of Kansas City, March 2003.

## Leveraging Federal Resources

State and local governments traditionally have relied upon a plethora of federal policies and programs to aid implementation of their economic development initiatives, especially when addressing large-scale economic distress and dislocations. As states and cities confront some of their worst fiscal crises ever, federal resources have become even more critical to successful implementation of state and local high-road development strategies. The most important types of federal programs that state and local industrial retention and economic development initiatives can draw upon (see Box 9), include:

- Economic development adjustment assistance programs, most of which are primarily targeted to economically distressed communities;
- Business, financial and technical assistance, especially to help small and mid-sized firms modernize and upgrade their operations and become more globally competitive;
- Support for research and development, innovation and technology transfer, to help firms and industries develop and adopt the most technologically advanced products and production processes to continually increase their productivity, efficiency and their ability to innovate, which is key to maintaining their global competitiveness;
- Workforce development and adjustment assistance to help individuals and groups of workers, especially those who have been dislocated, upgrade their skills, maintain income support and find new jobs and to provide manufacturers with the skilled workforces they need to remain competitive.

To make it easier for state and local economic developers to leverage federal resources and supplement their own resources devoted to retaining and creating good manufacturing jobs, we need to promote policies that:

- Tailor and strengthen and federal programs so they better serve the needs of state and local economic development initiatives aimed at revitalizing and retaining manufacturing;

- Restore and increase funding for these programs, especially those targeted by the Bush administration for serious cuts or are underfunded.

## Tailoring and strengthening federal programs.

The federal government provides several forms of assistance to states, communities and businesses, but more often these resources are bundled with matching state and local government and private-sector resources. Generally, these programs target their resources to communities, firms, workers or some combination of the three. They primarily are designed to help supplement and leverage (and be leveraged by) rather than substitute for state and local public and private resources in carrying out economic development projects.

With some notable exceptions, few of these programs were designed specifically with the goal of aiding manufacturing firms and workers in mind. Attention must be paid to focusing these programs—through executive actions or congressional authorizations—on meeting the needs of communities, businesses and workers that have been hurt or are being threatened by the manufacturing crisis. We also need new, innovative programs that promote manufacturing-based economic development and technical assistance, such as 2004 Democratic presidential candidate Sen. John Kerry's proposal to create an Office of Manufacturing within the Small Business Administration.

**Restoring and increasing funding.** Republican administrations since Reagan's have tried to weaken or eliminate many of these of these programs. Both Reagan and George H.W. Bush attempted to eliminate the Economic Development Administration. The current President Bush has tried to cut funding for programs such as the Manufacturing Extension Partnership, Advanced Technology Program and the U.S. Employment Service. In many instances, a groundswell of grassroots actions, with bipartisan congressional support, helped keep these programs alive. But many are still threatened or insufficiently funded. We need to ensure the adequacy of funding for all federal programs important to promoting American manufacturing, especially those that aid industrial retention and job creation at the state and local levels.

## ***Enabling Federal Programs***

**Economic development and adjustment assistance for communities.** The Commerce Department's Economic Development Administration (EDA), the Appalachian Regional Commission and the Department of Housing and Urban Development (through its enterprise zone programs) provide economically distressed communities financial and technical assistance to plan and implement economic adjustment strategies. This includes funding for public infrastructure (such as access roads), financial services (such as revolving loan funds) and support for cluster and network development.

**Financial services for businesses.** Federal agencies (such as the Small Business Administration and the Treasury Department's Community Development Financial Institutions Program) help individual firms gain greater access to capital and financial assistance (such as loans, loan guarantees and financial restructuring).

**Technical assistance and modernization services.** The National Institute of Standards and Technology's Manufacturing Extension Partnership (MEP) provides a range of technical assistance (such as business, marketing, workforce development and technology modernization) services to small and midsized manufacturers. The EDA's Trade Adjustment Assistance Program supports a network of 12 regional centers that help manufacturers injured by imports prepare and implement strategies to guide their recovery.

**Technology transfer assistance for manufacturers.** The MEP, the NASA-sponsored National Technology Transfer Center in Wheeling, W.Va., and other NASA-sponsored regional centers around the nation, along with many federal laboratories, have programs to help manufacturers gain access to and introduce into their products and production new technologies and process innovations.

**Research and development agencies.** Several federal agencies and programs, including the Small Business Innovation Research Program, the Commerce Department's Advanced Technology Program, the Department of Energy's Office of Industrial Technologies and its federal laboratories, the Defense Department's Defense Advanced Research Projects Agency and ManTech programs, NASA and the National Science Foundation, provide funding to firms, universities and nonprofit research institutions for research and development, product and process innovation and technology commercialization.

**Workforce development and adjustment assistance.** The Departments of Labor and Education sponsor and administer most federal education and training programs around the nation. The Labor Department is responsible for administering a range of workforce-related programs, such as the U.S. Employment Service, the Workforce Investment Act (WIA) and the Trade Adjustment Assistance (TAA) program that helps workers displaced because of trade-related impacts. WIA funds are distributed at the local level through Workforce Investment Boards (WIBs), made up of local government, private-sector training providers, businesses and labor representatives. The National Science Foundation also sponsors programs in science and engineering education.

## Helping America's Workers Remain Competitive

High-road state and local economic development requires public and private support for workforce education and training. High-performance manufacturers need adequately skilled workers, and workers need resources to develop their skills to obtain high-skilled, well-paying jobs and remain competitive in increasingly global labor markets. An educated, highly skilled workforce is a key source of regional competitive advantage in the attraction and retention of high-road industries. Unfortunately, federal, state and local governments lack funding for effective systems for recruiting, training and educating workers for modern manufacturing. Existing programs often fail to meet the needs of employers and workers, alike.

Strengthening all levels of higher education, guaranteeing a high-quality education to all, needs to be a high priority at every level of government. State and local jurisdictions also need to develop, tailor and expand workforce development programs, administered by public agencies with adequate funding, supplemented by federal and private resources. Moreover federal, state and municipal agencies must conceive of workforce and adjustment services as integral to industrial retention and economic development programs that result in the retention and creation of jobs so newly trained workers can actually find good jobs.

Efforts to reform and strengthen manufacturing workforce programs should be aimed at three sets of workers: incumbent workers, dislocated workers and future workers. This aid can include some combination of direct subsidies, tax credits, direct assistance and support for intermediary labor market institutions. These programs include:

- Workforce training and development programs that help incumbent workers obtain the learning they need for economic self-sufficiency;
- Workforce adjustment assistance programs that help dislocated workers become employable and find good new jobs;

- Future workforce programs that help move young or chronically unemployed workers into good new jobs;

- Innovative workforce programs that support industry networks and clusters.

## Workforce Training and Development Programs

These programs help current workers upgrade their skills and improve their job situations while helping employers gain access to workers with the skills they need in the face of global competition and technological change. A firm's innovative capacity and productivity growth depend on the quality of the workers it employs. As manufacturers turn to high-value-added advanced technology products and processes in response to global competition, workers and their employers need cost-effective ways to increase workers' skills. State and local agencies can provide funding, supplemented by federal grants, to companies and workers for skills training, on-the-job training, apprenticeship programs and industry skill standards and certification programs. However, support for these programs needs to be greatly strengthened at every level of government. In addition, manufacturers need to be encouraged through various incentives (such as tax credits) to invest more in training frontline workers.

## Workforce Adjustment Assistance Programs

State and local programs, supplemented by federal and private resources, need to help workers displaced by downsizing and plant closings resulting from public policies (such as trade policies and defense cuts), rapid technological change or other economic factors develop new skills and become re-employed in family-sustaining jobs. Such programs include early identification of troubled firms and affected workers, such as the early warning networks (see above and Box 4); training and educational support; income maintenance (including unemployment benefits, earned income tax credits and earnings insurance); health care subsidies; work-sharing arrangements; and job placement and relocation assistance.

Federal, state and local funding for these programs, especially the Trade Adjustment Assistance (TAA) program, need to be expanded to serve larger numbers of workers and be better funded. The TAA provides placement, training, income support and a Health Coverage Tax Credit (HCTC) to manufacturing workers, as well as workers in upstream suppliers and downstream producers displaced by imports and the movement of jobs offshore. States also need to improve TAA outreach, enrollment and services to trade-affected workers. They must ensure all potentially eligible workers and their unions receive the information and help they need to apply for TAA and HCTC.

### **Future Workforce Programs**

University and community college educational programs, school-to-work, vocational and apprenticeship programs help young workers move into the workforce. Some of these programs and others such as welfare-to-work programs can help young people or adults who never held a steady job move out of poverty and into decent jobs with living wages. Community colleges have become leading institutions helping incumbent, displaced and future workers develop the skills they need to obtain quality, value-added jobs in the more advanced industry sectors of a region. There is a special need to convince young people, from K–12 through college, that manufacturing provides career paths leading to well-paying, technologically advanced jobs entailing lifelong learning and advancement.

Aside from adequate funding, these programs need to be more tightly linked to economic development initiatives that create new jobs.

### **Innovative Manufacturing Workforce Initiatives**

Several states encourage and support (through seed grants, tax credits and technical assistance) the creation of workforce development organizations and partnerships (involving business, labor, community and government) such as labor–management apprenticeship programs, high-road training partnerships, interfirm and labor–management networks and similar programs. Their purposes may include upgrading incumbent workers’ skills, fostering high-performance work organizations and strengthening links between workforce and employer needs. These organizations, such as the Wisconsin Regional Training Partnership in Southeastern Wisconsin, the Center for Labor and Community Research in Chicago and the Hosiery Technology Center in North Carolina, also often serve intermediary functions within regional manufacturing clusters (see Box 8).

Most such initiatives have required some form of state, local or federal support to get off the ground or draw upon government contracts or grants in carrying out projects. State and federal agencies need to make greater investments in fostering and strengthening these kinds of innovative approaches.

# Conclusion



**T**URNING AROUND the crisis in manufacturing, both nationally and on Main Street, requires a comprehensive, integrated strategy linking national policies with high-road state and local initiatives to revitalize manufacturing. While we need to increase the demand for American-made goods and services, we also must influence U.S. manufacturers' investment and location decisions, and help them become more globally competitive so they keep their operations at home instead of moving jobs overseas. National policies primarily are needed to achieve the first goal, while state and local strategies can be instrumental in achieving the latter—although national policies also influence the business climate that affects companies' decisions at the local level. Conversely, state and local actions can influence national policies, while federal support can be critical to the success of state and

local efforts to foster high-road industrial retention and job creation.

In short, to paraphrase the old 1960s adage, we must “think globally, but act locally.” The challenge of revitalizing American manufacturing is national in scope and requires responding to economic threats and opportunities that are global in nature. But it cannot be successfully addressed without involving stakeholders touched by the manufacturing crisis acting at every level of the economy and society, from the largest states and cities to our smallest communities in rural America. Most importantly, reviving manufacturing on Main Street not only is possible but necessary if we are sustain a high standard of living and quality of life for America's working families in the 21st century.

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**Industrial Union Council**

Bakery, Confectionery, Tobacco  
Workers and Grain Millers

Boilermakers

Electrical Workers

Graphic Communications

IUE-CWA

Machinists

Mine Workers

PACE International Union

Sheet Metal Workers  
International Association

Steelworkers

Teamsters

UAW

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United Food and  
Commercial Workers

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