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How to jump-start American manufacturing

By Robert M. Kimmitt and Matthew J. Slaughter
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President Obama observed last week that the U.S. manufacturing sector has "been hit hard for as long as folks can remember." In fact, the last time so few Americans worked in manufacturing was April 1941. Since the Great Recession began in December 2007, America has lost 16 percent of its manufacturing payroll jobs. While there has been a slight uptick in manufacturing jobs in the last seven months, only 11.7 million Americans work in this sector, down from 17.3 million 10 years ago. That's barely 9 percent of total U.S. nonfarm payroll jobs. More Americans now work in the leisure and hospitality industry.

Yet manufacturing remains important. Manufacturing firms have long accounted for an outsize share of U.S. capital investment, research and development, and exporting. Productivity growth -- the only source of sustainable increases in standards of living -- has long been faster in manufacturing than in services. As we recover from the global financial crisis, America's economy needs to be rebalanced away from consumption demand and toward capital investment and exports. Manufacturing can play a key role in this process.

Fundamental to the revival of American manufacturing is international investment, both outward and inward. Such investment has long fostered the sector's dynamism and growth. The U.S. operations of multinational companies based here and abroad strengthen our manufacturing industry in several ways.

Start with U.S. multinationals operating in manufacturing. In 2007, the most recent year for which data are available, the U.S.-parent operations of these manufacturing firms made $173.5 billion in capital investments and conducted $157.2 billion in research and development. That was 58.4 percent of all private-sector research and development in America. They employed nearly 7.3 million Americans, at an average annual compensation of $78,164 -- more than 50 percent above the economy-wide average compensation.

Despite the common assertion that U.S. multinationals simply "export jobs" out of the United States, these firms' expansion abroad has tended to complement their U.S. operations. More international investment and employment in their foreign affiliates has tended to create more U.S. parent company investment and jobs as well. Our calculations from U.S. Bureau of Economic Analysis data show that from 1988 to 2007, employment in foreign affiliates rose by 5.3 million jobs -- while U.S. parent companies added nearly as many positions, 4.3 million. A 2009 study published in the American Economic Journal: Economic Policy analyzed all U.S. multinationals in manufacturing from 1982 to 2004 and found that each additional dollar in an affiliate's employee compensation generated, on average, an increase of about $1.11 in employee compensation at its parent company. Each additional dollar in an affiliate's capital investment generated an average increase of about 67 cents in its parent's capital investment.

In many U.S. multinationals, foreign and U.S. operations support and strengthen each other. A major reason for this is faster economic growth outside the United States. Rapidly growing countries present vast revenue opportunities for U.S. multinationals, opportunities that tend to boost affiliate and parent activity.

The benefits of international investment are also clear when it comes to multinationals based abroad that operate in America. In 2007, their U.S. manufacturing operations conducted $30.6 billion in research and development, made $63.7 billion in capital investments and exported $125.7 billion in goods. They employed nearly 2 million Americans -- 36.2 percent of total U.S. employment of all foreign-headquartered multinationals -- at an average annual compensation of $79,869. Notably, and contrary to common claims, the U.S. operations of these companies have long had unionization rates about 50 percent higher than coverage in the rest of the U.S. private sector.

As economic growth has broadened and quickened in recent decades, world-class manufacturing companies have emerged from many countries. The United States continues to offer these companies several advantages for investments: a talented workforce, a culture of innovation and risk-taking, and by far the world's largest single-country market.

The good news is that some are moving in this direction. Consider Compact Power Inc., a subsidiary of South Korea's LG Chem. With more than 14,000 employees worldwide, LG Chem is one of the world's leading designers and producers of lithium-ion batteries. Last month President Obama attended the groundbreaking ceremony for its subsidiary's factory in Michigan, which will eventually employ 300 people making lithium-ion car batteries. "These are jobs in the industries of the future," Obama said. "You are leading the way in showing how manufacturing jobs are coming right back here to the United States of America."

At this time of continuing high unemployment and sluggish job growth, policymakers and business leaders alike should encourage investment into and out of the United States. It would help revive American manufacturing and contribute to the nation's economic recovery.

Robert M. Kimmitt, deputy secretary of the Treasury from 2005 to 2009, is chairman of the Deloitte Center for Cross-Border Investment. Matthew J. Slaughter, a member of the White House Council of Economic Advisers from 2005 to 2007, is an adviser to the center.