The 21st Century Rat Race

In the wake of globalization, America is waving goodbye to many of its precious manufacturing jobs, which begs the question: Is America doing what it can to stay competitive and keep manufacturers in the U.S.?

By Michelle Janowitz

One of the many side effects of globalization is the increase in offshoring by American companies since the onset of the 21st century. Offshoring—sometimes confused with outsourcing or offshore outsourcing—is technically defined as the relocation of a company's business processes, such as manufacturing or services, from one country to another.

Offshoring's effects on the American economy have been a source of much debate in the U.S. Whether you believe offshoring is good or bad for the American economy, there is no denying the toll it has taken on the nation's manufacturing sector. When a company can go to China and buy labor for as low as $0.30 an hour, or in Mexico for about $2.40 an hour (versus around $20 in America), it's obvious that the U.S. will never be able to compete on wages alone. Goldman Sachs estimates that around one million manufacturing jobs have already been moved offshore since 2001 by U.S. companies and their suppliers.

So, in this new global marketplace the question remains: Is America doing what it can to stay competitive?

SOURCE:U.S. BUREAU OF LABOR STATISTICS

The overwhelming response is no. Just ask Ron Pollina, president and founder of Chicago-based Pollina Corporate Real Estate, Inc. (a full service brokerage and consulting firm) and author of the annual "Pollina Corporate Top 10 Pro-Business States" study, and he'll tell you that while there are states that are doing what they can to stay competitive in the global marketplace, there are just as many, if not more, that seem to be taking a "hands-off" approach to bolstering their business environments.

"What we generally find is that there are a lot of states that are really doing a very poor job of keeping the employers that they do have, and making an attractive environment within their state so that these companies want to grow there," says Pollina. "My opinion, based on working with companies for 30 years now all over the world, is that a lot of companies are very frustrated with their states."

Pollina goes on to say, "Often the decision comes down to, do we stay and grow here or do we go offshore? And, increasingly more and more jobs, as you know, are going offshore. That was the whole motivation behind doing the [Top 10 Pro-Business States] study. Companies will often come to us and say, 'if we were to stay in the U.S., where's the most pro-business environment?' Unfortunately, I think a lot of states are doing a terrible job at creating that pro-business environment."

According to Pollina, there are basically three types of companies: those that are going to chase cheap labor no matter what, those that have to be in the states, and the fence-sitters—the companies that will stay if given some assistance by state and local governments.

It sounds simple enough. However, part of the problem for companies is actually getting that assistance; there seems to be a critical lapse in communication between some states and their resident companies.

"I've testified now before a number of state legislatures and it amazes me the kinds of questions that I'm being asked by these legislatures," says Pollina. "Often it gives me the impression that there's a disconnect between them and the corporations within their own state. Many of them really don't understand what these companies want and what they need to survive.

“I had a senator once say, ‘Well Dr. Pollina, we haven’t lost any of our major employers in several years.’ And I said, ‘Yes, but the state has also experienced a severe drop in number of total jobs. Many of your major employers aren’t expanding here in the state; they’re expanding in other states and offshore.’ That’s often the case.”

The disconnect isn’t just between states and companies. The federal government isn’t in touch with the needs of America’s corporations either, especially manufacturers. David Huether, chief economist for the National Association of Manufacturers (NAM), believes that the federal government is doing far too little to keep manufacturing in the U.S.

“For the most part, the Congress’ priorities suggest that a significant number of our legislators fail to appreciate the unprecedented challenges facing U.S. manufacturing,” says Huether. “Many of the politicians who speak the loudest of the need to support manufacturing have the very worst voting records on issues important to manufacturing. They routinely vote against cutting taxes, promoting energy development, legal reform, and free trade agreements—all critical issues to manufacturing.”

Pollina agrees. “There is almost a complete lack of interest on the part of the federal government in manufacturing in this country and virtually no support,” he says. “Federal support has traditionally been in the area of agriculture. I talked to a senator one time, an older gentleman, and he said, ‘Dr. Pollina, I view all these incentive programs as nothing more than corporate welfare.’ I asked him, ‘Well senator, how long have you been a farmer?’ He answered, ‘Over 45 years.’ I asked, ‘During that period of time, how much have you received in federal agricultural subsidies?’ He replied, ‘I guess everything is relative, isn’t it?’”

Incentives, Incentives, Incentives

Knowing that government involvement at all levels is a vital component to keeping manufacturing in the U.S., an even bigger question follows: How exactly should the government get involved?

For starters, many experts agree that the government could be more proactive with corporate financial incentives, especially ones that help boost productivity, such as incentives that assist companies with new equipment and training.

“I had a client not long ago that told me, ‘You know Ron, here’s what it comes down to: we either spend $25 million and put all-new equipment in our plant, and if we do that we’ll increase our productivity to a point where we can compete internationally, or our other choice is we don’t have to spend the $25 million, and just move the operation to China,’” says Pollina. “Well, with nobody helping them with the investment, they moved to China. If the state had come in and said, ‘Look, we’ll give you some low-interest or forgivable loans, and we’ll help you to get that equipment, and we’ll help you to train those people,’ that company might have stayed.”

America’s tax climate is seen by many as a roadblock to keeping manufacturing here. There is plenty that can be done at all levels of government to eliminate what many manufacturers feel are tax-related impediments to doing business, according to “Manufacturing in America: A Comprehensive Strategy to Address the Challenges to U.S. Manufacturers.” (The report was put out in 2004 by the U.S. Department of Commerce in the wake of a federal manufacturing initiative, which organized over 20 public roundtables to solicit input from American manufacturers on what government needs to do to resuscitate the manufacturing sector.) The report mentioned that while getting rid of and lowering certain taxes as well as tax concessions for equipment and training will better America’s tax climate, actions like simplifying the tax process—which, as it stands now, makes it difficult for smaller manufacturers to compete—are also imperative.

Simplifying taxes is only part of the equation though. Business regulations could be made less restrictive in the minds of many U.S. manufacturers. And, of course, government spending on research and development (R&D) is seen as essential to the future of manufacturing in America.

According to the report, some manufacturers believe that staying ahead of the curve technologically is paramount to a successful manufacturing future in the U.S.; R&D propels innovation, which translates into new products and increased productivity. As other countries, especially in Asia, present themselves as technological leaders, America's once practically unchallenged competitive edge starts to look dull. Many of America's foreign competitors provide companies with a variety of generous and permanent R&D incentives. In 2003, foreign-based R&D spending grew faster than domestic R&D spending, according to NAM.

One concern regarding R&D activities is the recently expired (as of December 2005) federal R&D Tax Credit; it is the 12th such expiration since the credit's creation in 1981, increasing the cost of R&D for the nearly 16,000 companies that use the credit. Acting as soon as possible to seamlessly extend the tax credit, as well as eventually passing legislation to make permanent a strengthened R&D tax credit is crucial to America's manufacturing vitality, according to NAM. R&D activities typically span five to 10 years, and manufacturers want a guarantee that the credit will be available during the life of their project.

Continue to rest of the article >>

FacilityCity • **Business Facilities** • **BFLiveXchange** • **Today's Facility Manager** • **The TFM Show®** • **TFM Forum** • **Group C**

44 Apple Street, Suite #3, Tinton Falls, NJ 07724 Tel:732.842.7433 • Fax:732.758.6634
Contact Us • Terms Of Use • Privacy Policy