# US manufacturing rebounds on lower wages

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In recent weeks, the Obama Administration and media have taken to celebrating the upturn in US manufacturing, which they have proclaimed as the solution to the country's economic woes.

But underlying the recent rebound are some stark facts; the growth in the manufacturing sector has been based on a sharp decline in workers' wages and benefits, fueled by the rapid devaluation of the US dollar. Moreover, it comes after the destruction of nearly 2 million manufacturing jobs, leaving a huge net job loss.

The US manufacturing sector grew at a rate of 9.1 percent in the first quarter of this year, compared with a growth rate of 1.8 percent for the economy as a whole. Exports, meanwhile, grew by 10 percent in 2010.

Companies such as Boeing and Caterpillar have announced plans to open plants in the US. Boeing plans to start production at new plant in Charleston, South Carolina in July, to produce its new 787 line of commercial aircraft. Caterpillar likewise plans to open a plant in Muncie, Indiana, operated by one of its subsidiaries, to produce locomotives.

Real wages, meanwhile, have continued to plunge in all sectors of the economy. Over the past 12 months, average hourly earnings for non-supervisory workers grew by 1.9 percent, but the growth was wiped out by the rise in consumer prices, which increased by 3.2 percent in the same time. As a result, real average hourly earnings fell by 1.3 percent. Real wages in the manufacturing sector fell slightly faster, but not by enough to fully explain the growth of the sector.

The driving force in manufacturing growth is to be found in the continued productivity upturn in the sector, which has significantly outpaced the rest of the economy. From January to March, productivity grew at a rate of 6.3 percent in the manufacturing sector, compared with 1.6 percent for the economy as a whole, according to the Labor Department.

James L. Butkiewicz, a professor of economics at the University of Delaware, said in a phone interview Tuesday that much of the rebound in manufacturing was based on concessions taken from the workforce, particularly in the auto industry. “During the recession, firms sought concessions from the unions to keep them going,” he said. Now that conditions are more favorable, the concessions have stuck, resulting in a rebound in profitability.

The rapid rise in manufacturing productivity is likewise attributable to the disastrous effects of the economic crisis on the manufacturing workforce. Between January 2008 and March 2009, the worst part of the downturn in manufacturing, the relative rate of job loss was twice as high for the manufacturing sector as for the economy as a whole.

During that period, the US economy lost 1.6 million manufacturing jobs, a reduction of ten percent. During the same period, the country as a whole lost 5.8 million jobs, or five percent.

In the course of this slump, manufacturing firms aggressively shut down plants and consolidated their workforces. Remaining workers were forced to accept less pay and worse working conditions on pain of losing their jobs.

The growth in manufacturing productivity has led to significant differences in production costs within the economy; while the cost of a unit of labor grew by 1 percent for the whole country, it fell by 3.5 percent in the manufacturing sector.

“Unit labor costs are falling in the US, which, together with the falling exchange rate, are making US exports very competitive,” said Butkiewicz.

The rebound in manufacturing jobs has been concentrated in the so-called “rust-belt” states, which together saw millions of manufacturing jobs eliminated in recent decades. The four states that gained the most jobs in the twelve months between March 2010 and

March 2011 are all in the Midwest. Michigan gained 29,800 jobs, Wisconsin gained 18,600, Ohio 14,000, and Indiana 13,300.

In January 2010, Barack Obama pledged to double US exports within five years. Soon afterward it became clear that the administration intended to do this through the combined policy of competitively devaluing the US dollar and driving down the living standards of US workers.

In the past year alone, the US dollar has fallen 12.4 percent against the yen and 12.72 percent against the euro. Although China had previously sought to peg the yuan to the dollar, the US currency has appreciated by nearly five percent against the yuan.

In the 12 months after Obama's announcement, US exports have grown by 10 percent. If similar conditions prevail in the coming four years, it will mean a 60 percent jump in exports; short of Obama's goal, but nonetheless substantial.

The devaluation of the US dollar was the outcome of the Federal Reserve's cheap money policy, which, in addition to reducing the US exchange rate, flooded US corporations with cash that they could use to drive up their profits without additional production.

The reduction in US wages was a deliberately orchestrated campaign. The initial stimulus package propped up consumer spending and state government finances temporarily while the government focused on bailing out the banks. Since then, the Obama administration has allowed the subsidies to the states to expire and imposed austerity measures on the federal government.

The Obama administration likewise intervened to restructure the auto industry, overseeing the closure of plants throughout the country and the imposition of a contract that significantly expanded the hiring new workers at $14 per hour. This intervention by the Obama Administration opened the way for other companies to follow suit, pursuing similarly aggressive policies against their own workforces.

In doing so, Obama was accelerating the general growth of the tiered-labor system in the auto industry, begun with the splitting off of parts production facilities in the 1990s, in which parts workers were paid half the wages of assembly workers.

The result of this policy was highlighted in an analysis made earlier this month by the Boston Consulting Group, a business consultancy, which predicted a convergence of labor costs between the United States and China in the near future. “We expect net labor costs for manufacturing in China and the U.S. to converge by around 2015,” said Harold L. Sirkin, a senior partner at the group.

“Executives who are planning a new factory in China to make exports for sale in the U.S. should take a hard look at the total costs,” said Sirkin. “They're increasingly likely to get a good wage deal and substantial incentives in the U.S., so the cost advantage of China might not be large enough to bother.”

While the cost differences between the United States and China are significant, the fact remains that the continuing downward trend in the costs of US production are leading to wages and working conditions for the US manufacturing sector that resemble those currently existing in China far more than those of the US workforce in an earlier period.