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Recovery emerging from U.S. factories

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By Don Lee



Eugenio Alicea, left, and his brother Ezequiel prepare to laminate sheets of glass at Flickinger Glassworks in Brooklyn. Manufacturing's share of the economy dropped to 11.5% in 2008 from 21% in 1979.

Multiple Page View

Reporting from Washington-- Improbable as it seems, the brightest spot so far in the nation's spotty economic recovery is a sector long considered all but dead -- good-old-fashioned manufacturing.

Factories are churning. Exports are up. Even though jobs are the bleakest aspect of the overall economy these days, factory payrolls have turned positive.

"We could have a renaissance here," said Ron Bloom, President Obama's manufacturing czar. "Indeed," Federal Reserve Chairman Ben S. Bernanke declared late last month, "manufacturing has been leading the recovery so far."

The basis for that optimism is emerging companies such as Nanosolar Inc. in San Jose, which is riding a wave of demand for "green energy" equipment, as well as established firms such as Intel Corp. and Boeing Co. that are investing billions in U.S. production facilities.

Even old-line manufacturers such as Caterpillar Inc. and General Motors Co. are calling back workers.

But after years of losses to foreign competition, can U.S. manufacturing really turn around and power the nation back to long-term prosperity? Just replacing the 2 million-plus factory jobs lost in the last two years would be noteworthy.

The United States' industrial might has been declining for decades. From shoes and socks and televisions in past years to flat panel displays, advanced ceramics and robotics in more recent times, one product after another has been transformed from "Made in the USA" to "Made Overseas."

Manufacturing's share of the economy, meanwhile, dropped to 11.5% in 2008 from 21% in 1979.

The result has been the loss of what historically has been the foundation of modern economies -- making things people want to buy.

"I don't know where we go when we don't make anything and send our dollars elsewhere," laments Robert Gates, senior vice president at Clipper Windpower of Carpinteria, Calif. His company has little choice but to buy wind-turbine components from abroad, mainly Asia.

In the wake of the Great Recession that was rooted partly in Americans' heavy borrowing and purchases of foreign-made goods, President Obama is trying to lay the foundations of a new U.S. economy, one built more on savings and producing, not spending and importing.

He wants to double exports in five years and increase research and development investment to more than 3% of the nation's economic output, which would be the highest since the Kennedy administration.

Obama wants to make tax credits for private investment in research and experimentation permanent. And he has promised to get tough with trading partners who don't play fair and open their markets.

Many manufacturers like what they're hearing but remain skeptical. The massive federal budget deficits will hamper spending on economic development for years, and many business leaders doubt the government can play a major role.

Optimists point to the nation's abundance of private capital and its history of turning creative ideas into commercial products.

They point to continued U.S. leadership in such key industries as aerospace, biotech, optical communications and memory chips. Intel's \$2.5-billion retooling of its wafer plant in New Mexico, for example, will soon make a 32-nanometer processor, two generations ahead of the chip that Intel's new China factory will churn out this year.

But planting green shoots such as Intel's wafer plant or the cluster of high-tech research labs and production plants established by IBM and others along the Hudson River in New York is one thing. Rebuilding manufacturing on the scale that once undergirded U.S. prosperity is another.

The problem goes far beyond the oft-cited factor of lower labor costs overseas, already a diminishing factor in world trade.

For one thing, as manufacturing declined, so did the supply chains, support firms, capital investment and, perhaps most important, research and development. In the United States, government policies have tended to be neutral or even negative when it came to the manufacturing base. China, by contrast, invests heavily in R&D and subsidizes manufacturing.

Without industrial clusters, in which production lines, labs and suppliers feed off one another, the U.S. risks losing more of the wealth generated from making higher-value goods, said Willy Shih, a Harvard Business School professor.

"At the end of the day, how much of those [software and marketing] services can we sell, and will it offset all the stuff we import?" Shih said.

Some economists and business analysts argue that it's all right to let manufacturing dwindle, as long as Americans continue to innovate, design and market products well. In a service economy, where things are made isn't so important, they said.

Some experts cite Apple Inc. as a prime example of a company that sends manufacturing and assembly offshore but profits handsomely from its design, software and global brand image. That may be good for Apple's bottom line, critics said, but not for the U.S. employment picture.

"Apple captures the profits, but somebody else captures the jobs," said Richard McCormack, publisher of Manufacturing & Technology News. U.S. factory jobs today average about \$18.40 an hour.

Other experts argue that something even more important is lost when manufacturing disappears: future opportunities. Without domestic production, they said, it's hard to induce commercialization of ideas and new applications of existing technologies.

Since 2002, the U.S. trade deficit has been fed not only by the influx of merchandise with low labor costs such as clothing, but also by advanced technology products, according to the Commerce Department.

Joseph Fehsenfeld, president of Midwest Printed Circuit Services near Chicago, has seen his industry shrink in the last decade to about 200 producers generating about \$4 billion from more than 700 makers with sales of \$12

billion.

As the industry moved to Asia and clustered around electronics makers there, Fehsenfeld's 26-year-old firm has shifted to lower-volume, specialty production. That's kept his company alive but not thriving; sales have fallen to \$8 million from \$13 million in 2000, and his payroll has been halved.

"We are now locked out of key [businesses] because our industry size has shrunk," said Fehsenfeld, 55, who grew up in Chicago when local manufacturers such as Zenith were still making TVs.

Fehsenfeld is counting on automation and technology to help keep him competitive, but two years ago, as the economy began to sour, he eliminated the company's in-house research and development operations.

Cutbacks like that worry Gregory Tassej, senior economist at the National Institute of Standards and Technology.

"In a decade China will be more R&D intensive than the U.S., and it will spend more dollars than the U.S.," Tassej said.

don.lee@latimes.com

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