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American Manufacturing Could Be in Bigger Trouble Than We All Thought

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The biggest advantage our factories have -- their productivity -- might not be that big after all.



Reuters

Even as factory employment in the United States has been decimated over the past few decades, there's always been one very good reason to be hopeful about American manufacturing: productivity. U.S. companies have supposedly become very skilled at leveraging technology to make more -- or at least more valuable -- goods using fewer workers. That process, along with outsourcing to China, has led to the downsizing of blue-collar America. But it's also helped keep the country's industrial base competitive in a globalized economy. It's why we're still among the leaders in industries such as autos, heavy machinery, and chemicals, even though our workers are paid astronomically higher wages than Asia's.

President Obama is particularly fond of this story. On campaign stops at factories, he likes to tout the productivity of American workers as the saving grace that will propel U.S. manufacturing into the 21st century. At a Boeing plant last week, he [told the crowd](#):

American workers have never been more productive. And companies like Boeing are finding out that even when we can't make things faster or cheaper than China, we can make them better. Our quality can be higher. And that's what America is about. That's how we're going to compete.

Obama isn't alone, either. He's joined by plenty of respectable economists and journalists. I've written versions of the productivity trope myself.

But recently, a few very smart people have been loudly challenging the conventional wisdom on America's industrial productivity. Yes, efficient, high-tech factories have played a role, they say. But so has outsourcing work to countries with cheap labor, which has made our manufacturers look more "productive" than they really are.

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The Progressive Policy Institute's Michael Mandel brilliantly tackled this issue in a recent *Washington Monthly* [article](#). As he puts it, there are two types of productivity. The first type, "domestic productivity," is what President Obama and most economists like to focus on. It's the result of investing in new tools and automation technology that allow U.S. factories to produce high-end jumbo jets, Chevy Cruzes, and heaps of pills with relatively few workers. When domestic productivity rises, it creates job opportunities for workers with the necessary skills to help operate these new, cutting edge plants, and ultimately leads to a higher national standard of living. (The dark side of the bargain is that low-skill employees suddenly find themselves out of work. Adam Davidson's *Atlantic* cover story, "[Making It In America](#)," is a beautiful snapshot of what that sort of change looks like on the ground).

But there's a second kind of productivity -- what Mandel calls "supply-chain productivity." This is the process where manufacturers import cheaper raw materials and parts from abroad to lower costs, which makes their entire manufacturing process seem more productive and efficient. Here's an example: Ford can increase the productivity of its Michigan auto plants by investing in more assembly line robots to replace human workers. But it can also do it by buying brake pads from a factory in China, rather than a pricier domestic supplier. Thanks to the way the government calculates its statistics, either change will make the American auto industry appear more productive. But each obviously has very different real-world implications.

The Brookings Institute makes a similar point in a long report it [released today](#). Not only has the use of outsourcing inflated manufacturers productivity statistics, it argues, but so has the practice of hiring "temporary help" services to staff factories. That's right: Just like your office can hire a temp to handle filing, so too can Caterpillar hire a temp to man their assembly lines. But because employees from temp services aren't counted as "manufacturing workers" in official data, factories appear to be using less human labor than they really are.

It's difficult to assess just how much all of these factors are inflating America's productivity figures. One study cited by Brookings suggests that, between 1997 and 2007, the use of cheap imported materials and parts might account for anywhere from 20 to 50 percent of the growth in U.S. manufacturing output, as measured by value added. But when push comes to shove, our official statistics do a very poor job tracking how much of our gains have simply been due to outsourcing and the use of temporary labor.

We desperately need a firm answer. If America's factories have been becoming more productive because companies have been investing in more and better technology, it means they're primed for a competitive future. If they've become more productive by finding great deals on widgets abroad, our manufacturing base might be in even worse shape than most of us, including the president, have assumed.



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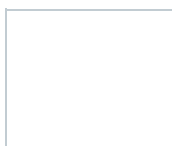
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