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GLOBAL COMPETITION AND AMERICAN JOBS:

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P R O C E E D I N G S

MR. BAILY: Okay, I think we'll get started. My name is Martin Baily. I'm a senior fellow here at Brookings in the Economic Studies program, and I'm very pleased to be here with this very distinguished panel to talk about some of the aspects of manufacturing and technology. And we're also going to talk a little bit about Germany and what's happened in the German labor market over the last few years, and how that may be different from what we've had in the U.S.

So we've got a terrific panel. Leo Gerard, who's to my right, is the international president of the United Steelworkers.

MR. GERARD: Only physically.

MR. BAILY: I don't think when I was in the government, I was necessarily the AFL-CIO's favorite economist, but those days are past. Relative to the current political spectrum, maybe I fall differently. Anyway, next to him is John Surma, the CEO of U.S. Steel.

And next to him is Elisabeth Jacobs, who is a fellow here at Brookings, in government studies, and as I already previewed, has written a paper which is outside, has attracted a lot of attention. It's a very good paper on what's happened in Germany and some of the differences with Germany.

Now, Gary Burtless told us in the first panel of the morning, that the biggest problem for employment that we have is lack of demand. So this is still a business cycle. It's not a recession, because recessions are defined as the part where you're falling, and we're not still falling.

We are rising, just not rising fast enough. But we are still essentially, in what feels like a recession given the high unemployment and the biggest reason is because of caution about spending by business, by consumers, and by government also.

So we're not filling capacity in our factories and offices, and we don't have anything close to full employment. But this panel, as some of the other discussions have really been turning about the role of the U.S. economy in the global economy, and its ability to be competitive globally, and sell its products and services overseas.

And I think we're going to have a great example, both to hear about what's happened in the steel industry, and also what are some of the implications of that for the rest of manufacturing. Two of our panelists got pretty warmed up at lunch, so I think they'll be able to hit the ground running on some of these issues.

I'll say for the record, I'm a little more skeptical than some folks that U.S. manufacturing can be a big source of jobs going forward. I think it may be -- we may get some jobs. We've had in 2011 as someone said, we have had a modest increase -- I think it was Secretary Bryson said, we've had about a couple hundred thousand, and we may be able to repeat that or do a little bit better as the economy recovers, but I don't think over the next 10 years we are likely to get much additional employment from manufacturing.

And I'm one of those people who thinks the main reason for that is because of technology. That it takes only 2 people to make a ton of steel, whereas it used to take 10 people to make a ton of steel. But whether that's true or not, I think the importance of manufacturing and certainly the competitiveness of the US economy is terribly important.

We cannot, I think, go back to the period of analyst six percent of GDP trade deficits that we have before we went into this recession. I think that would be a significant drag on growth and would make it difficult for us to get back to full employment. I think it would also create a new imbalance in capital flows and trade of the kind that we had before.

So I do believe that manufacturing is tremendously important, and the future of U.S. competitiveness is heavily tied to manufacturing. So with that sort of guarded preamble I guess covering my bets in different directions, let me turn to our panelists and I'll start on my right -- at least physically on my right, with Leo. Now, you have some fairly strong views. Listening to you -- at comments that you made a little earlier, I'm going to change my question to you slightly, in the sense that you believe that policy -- the reason that manufacturing employment has declined so much, is because of policy, policy neglect, policy that's really been hostile towards unions, and maybe hostile towards manufacturing.

So let me ask you, as my first question, what do you think policy makers should do in order to create the kind of manufacturing sector that you would like to see? And to the extent that you can point to examples within the steel industry, that would be helpful too.

MR. GERARD: Let me answer the questio I wanted to ask as opposed to the question you wanted to ask and --

MR. BAILY: Okay.

MR. GERARD: I'll try to say a bunch of things in sort of bullet point form so I can cover a lot of area. First of all, the only real creator of real wealth in any economy is when you take things and make things. Manipulating financial instruments doesn't create real wealth, it creates illusionary wealth.

And we've gone for an excess of 30 years in this country, and in countries that adopted its philosophy of saying that it was the service sector, it was the financial sector that was going to matter, it was this, it was that. And then we said about even saying that manufacturing doesn't matter, it's passé. And in that period of time, we fell from manufacturing being about 22 to 23 percent of gross domestic product, and depending on which economist you listen to, somewhere between 9 and 11 percent.

If my premise is right, that real wealth is taken when you take raw material and you mix it together and you create something, and then that something is put into something else, and you end up assembling that with something, and after a while, you've got 8,000 parts and you've got a wind turbine or you've got a car, or you've got something.

That's how you create real wealth. And if my belief is right, then what we're trying to say is if we leave manufacturing the way it is, is that less than 10 percent of the population is expected to create real wealth for the other 30 percent, and that can't be sustained. Then if you put that beside -- and I'm pleased to hear your comment about six percent of GDP and trade deficit. Except for what happened in '08, we had hit 25 years in a row of year after year record breaking trade deficits to the point now where one of our main trading partners, if you want to call it that, is China. And we've been running a continuous trade deficit with China in excess of 200 to 250 billion dollars a year.

And it's not about -- as John will readily tell you, it's not about our man-hours, and our cost per man-hour, because we can now make steel in Pittsburgh at Edgar Thompson Works with about two hours -- give or take a little bit more or less than two man-hours per ton.

So labor costs don't enter into it. It's all the other cheating that China does, and I don't want to just refer to China because the Asian economy that we're going to be competing against, which is going to be our biggest competitor, they've actually got a job strategy.

And what America doesn't have is a job strategy. We wanted to go out and get renewable energy. We couldn't get a renewable energy standard so that people couldn't make wind turbines, because there's no market, because there's no standard.

So at that point in time, I think that unless America decides that it wants manufacturing, there's a saying that people tell me is an old Chinese saying, I don't know if it is or not, but it goes something like this: Unless you change direction, you'll continue in the direction at which you are heading.

And so, we can't continue to head in the direction of losing manufacturing if it's the real wealth creator, which I believe it is. Manufacturing pays a higher wage, union or non-union. Simultaneous to that, we've had 30 years of attacks on collective bargaining and attacks on the trade unions across the board by both governments and large employers, small employers, the Chamber of Commerce, and everybody that can, which has led to a falling and declining standard of living for many people, which has led to the incoming inequality that we have, which has led to a demand crisis in America.

We've got a deficit issue; I'm not sure it's a deficit crisis. But we've got a crisis in manufacturing, we've got a crisis in jobs, and we have a crisis in inequality. And the only way to deal with those is to have a sit down, and decide that we want to make manufacturing over the next 5, 10, 15, 20, 25 years grow its way back to 22, 23 percent of GDP, and that way we can put people back to work.

MR. BAILY: Okay. So you think that -- coming out of it, what would be the top three things you'd sit down and say you want to change in manufacturing? So you want to change the way unions are bargaining so the conditions for organizing and bargaining, organizing particularly.

MR. GERARD: This might shock you. The first thing I'd do is blow up all the rotten trade agreements that lead to 25 years of record breaking trade deficits.

MR. BAILY: Okay. So you'd blow up the trade agreements.

MR. GERARD: I'd negotiate new ones. I believe we have to trade. I don't believe there's such a thing as free trade. All trade is regulated. It's on whose behalf will you regulate it for. America has to be a trading nation. We need to ask for -- back it up. The Germans have a trade balance with China.

MR. BAILY: They do.

MR. GERARD: Okay. The Japanese have a trade balance with China. Why don't we?

MR. BAILY: Everybody --

MR. GERARD: Everybody but us does, right?

MR. BAILY: The Chinese trade surplus is greater with the U.S. --

MR. GERARD: Than anyone else.

MR. BAILY: -- than it is in total. That means they are in net deficit with everyone else, except us on balance. I mean, I'm sure there are --

MR. GERARD: So my point is, that's a policy decision.

MR. BAILY: Okay, so you would really revamp trade.

MR. GERARD: Then I would want transparency.

MR. BAILY: Transparency of what?

MR. GERARD: I would want transparency in all our trade agreements, and all our relationships on trade with all the other countries we have. We want to know what we're doing. We want to make sure we're bargaining apples for apples and oranges for oranges. I would want to make sure that we're talking about, and I don't know if we can ever get it, but we ought to at least pontificate about wanting a level playing field.

We can't go into -- I mean, John may want to make a point with this. I believe we can make a ton of steel in Pittsburg at Edgar Thompson Works cheaper than they could make a ton of steel in Beijing, because we have the raw material, we have the talent, we have the energy, and we have all that stuff. They can't. But we can't get a ton of steel into there, okay.

MR. BAILY: Okay, so the problem with manufacturing is basically trade and unfair trade.

MR. GERARD: Well --

MR. BAILY: Is there anything -- now, let me just ask a far out question. Is there anything that you as a union could do in terms of skills, training, improving work practices --

MR. GERARD: We're doing that now, and we've been doing that for 20 years with the employers that will do it with us. And U.S. Steel to use again U.S. Steel. We negotiated an institute for career development 20 years ago. We continuously train our people. We've got training programs in the plant. John as the CEO of U.S. Steel, I as the president to the steelworkers in the areas where we can have influence. We go talk about community college, vocational training. We need to go back to talking about high schools doing vocational training.

You can't expect it. Everybody's going to graduate with a four year degree and go get a job if there's not the jobs there. And so, the other thing that, you know, you can only be angry with so many things and still get some sleep at night. I put on my sticker that I supported the Occupy Wall Street -- the Occupy movement. You know why?

I saw a kid that they interviewed about two weeks into it and they stuck the microphone in his face and they said, why are you here? And that kid looked like he was about 26, 27 years old, about the age of my daughter. He said, I'm here because I did as I was told. I went to school and I got two masters degrees, I've got college debts I can't afford to pay the interest on, and I can't find a job.

When we're at that level, and we're carrying record breaking trade deficits of $700 billion, and we keep telling people, this is going to be the pathway to whatever and we don't get there, at some point people have got to recognize that we've got to change direction. And there isn't one thing you can do.

We didn't get in this mess in six months. We didn't get in this mess since '08. '08 just aggravated this mess. We've been getting in this mess since the 1970's. And so we need a plan to get us out of this mess. Why don't we have an infrastructure bank? Why don't we set up an infrastructure bank so that people could invest in that bank, and that we could modernize our infrastructure the way they do in Europe?

We can't put energy on the grid without losing 7 percent. We don't drink water out of our taps because we're not worried about it, so we drink bottled water. I mean, look at all the things we could do. 60 percent of the schools in America are older than 50 years old.

MR. BAILY: Okay. I'm going to cut you off and give you another chance later.

MR. GERARD: I've got two more weeks of this shit.

SPEAKER: You can see why negotiations take so long.

MR. GERARD: But we get there.

MR. BAILY: This is great. I'm not sure I want to swap places with Europe, actually right now. But anyway, John --

MR. GERARD: It's never about right now, by the way. That's the problem.

MR. BAILY: I should have just shut up. I shouldn't have tried a comeback. John, I think as everybody has said earlier, and I think we'd all agree that technology is a very key part of being competitive. I think you've got some interesting things to tell us about new technologies or applications of technologies that are making a big difference in your industry. And to the extent that you can see outside your industry, tell us about that too.

MR. SURMA: I'd be glad to. First, Glenn, thank you for inviting us, or just me and my distinguished colleague here. Our company's in our 110th year of operations in the United States, and we make things in the U.S. and we're really glad to be here, so thank you. Thank you.

We operate in four countries, so we do what we do in a variety of places and we can compare a little bit, the policy matters. And I think the U.S. is a good place for manufacturing, and we have a lot of natural positives that we can use to our benefit, and manufacturing certainly will have some positive direct employment benefits moderated by the productivity gains we're making with that.

Martin, I think you're quite right about that, but there are some policy things I think could be very positive that would encourage us to do things that are big investments. In our line of work we make hundreds of millions of dollars of investments and they stay in bay for 30 years. So we have to be really positive about what we want to do. We need to make sure we have a field that we can play on.

I agree with Leo on the trade front. I think we need to have strict enforcement over trade laws. Those laws should be maintained. If we compete straight up, and my colleagues that Leo represents at Edgar Thompson Works in Pittsburg, Andrew Carnegie's first plant, still going strong, and if we lose straight up, we lose. That's okay.

But I don't think they should have to compete with a country. They can compete with a company, that's perfectly fine with me. One of the things that is the most important thing that's happened in our sector of 10, 20 years probably is the whole energy change. Natural gas and natural gas liquids, the enormous technology benefits that the natural gas industry and extraction industries have brought to our country. Gas today is trading for less than $4. Let me give you some numbers. In our business, it takes about five MMBTU's to make one ton of steel. Five. Today it's trading at, let's just say 4, that's $20.

We make steel in Europe. We use the same five. It's 10 euro in Europe, that's $50, okay. North America, the U.S. is a really good place because of that. We have an enormous opportunity to harness that energy. It needs to be extracted in a proper way, it needs to be well regulated, it needs to be environmentally -- stringently regulated, and there's no reason it can't be, by the way.

The technology here is not all that hard. But it's a huge opportunity for the U.S. and manufacturer. We are one small industry, one small company; we only have 45,000 people, 20 billion in revenue, just a small company. And there are others who are much larger in the chemicals business, who see even better and more enormous opportunities.

So I'd say the energy policy choices that have to be made are extremely critical, and they should not be exclusive. They shouldn't be only this, or only that. I think we need, you know, a broad portfolio because they each bring different benefits with them. But an enlightened energy policy that encourages natural gas usage in a big way, I think it'd be a real positive.

The way we make our product, by the way, we're an extractive industry, so we actually extract iron ore from mines in Minnesota and Michigan. And we've reduced that to elemental metal with carbon. We introduced carbon to it. And mostly that is today, coal we make into coke, which we then reduce iron to make steel.

It could be a little messy at times if we're expensive. We're building a new coke battery today near Pittsburg. It costs $600 million dollars, I think, 600 million. It'll run for the next 30 years. Big decision for us. Instead, we could take natural gas and use the C's there to reduce iron ore to elemental iron at about two-thirds of the cost and about half of the capital.

And it's a disruptive technology. Several units are already being built. Huge change in technology that will give us great opportunities to compete in the world, and it's all enabled by this enormous progress that's been made in energy extraction and discovery. So, I know there's lots of emotion about that subject.

I think we should give it a chance, and I would really encourage our policy makers to make that a piece of what we do to rejuvenate North American manufacturing.

MR. BAILY: So do you think -- again, it's a little bit outside your area, but do you think you may see some of the petrochemical industry coming back to the United States? I mean, I think a few years ago, you'd say it's all going to go to the mid-east, or Africa, or somewhere where the raw material is. But --

MR. SURMA: It's going to go to where the lowest cost C's and H's are. That's where it goes. To put it in simple chemical terms, in Pennsylvania, where our home state is, where I live in southwest Pennsylvania, the Marcellus Shale, you all heard about that, large extraction activities there.

Very wet gas, lots of liquids, ethane, butane, natural gasoline, et cetera, more ethane than can be easily consumed. And so there's probably enough ethane there for a cracker, which is an enormous investment building in two, three, who knows, and all the downstream that comes from that. I'm not in the chemicals business, I was at one time, but it's a huge opportunity. And there were lots of plants which were shut down by other companies. I think -- was Andrew here this morning? Liveris?

MR. BAILY: Yes.

MR. SURMA: He may have talked about that, but I mean, he had a much different view of natural gas in the U.S. before than he does now. It's enabled his great company, I think, to be much more competitive in the world as well, with big investments. So the availability of low-cost C's and H's in the U.S. is a huge, huge opportunity, not just for our company, but for all sorts of industries.

MR. BAILY: I don't want to put you too much on the spot, but you do have a unionized workforce, you have non-union competition in the United States, a lot of steel capacity has grown up that's non-union. You do have imports as well, coming in.

So what's your secret? How have you been able to be competitive and survive and remain as a union operation and remain -- I know you and the steelworkers have had your fights along the way, but at this point you have a pretty good relationship. Can you tell us a bit about how that's been accomplished?

MR. SURMA: I give a lot of credit to my distinguished colleague, right here. But I think the last decade has really changed the way we viewed things. In the early part of the 2000's, our sector companies were really in a tailspin, and were heading over the edge. 35, 40 companies at (inaudible) probably at that time. Not ours, thankfully. And we began to talk about how we had to change that, otherwise we were both going to go over the edge together.

And we, I think, agreed on a number of things. We agreed that our employees work hard under potentially dangerous conditions and they should be rewarded for it at a competitive basis. They should do better when a company does better. They should be safe. They should have a retirement that would allow them to have a dignified career and a dignified retirement.

And a company should be able to make some money to invest, to make sure that stays. So we agreed on all of those things. Now we can argue about what the Saturday premium should be, and the safety shoe allowance. We can argue about that, but I think the basic elements of safe, reasonably compensated employees in a productive, competitive, profitable company, we agree on that.

And the only way to get there, we concluded, was to be productive in our labor contracts through no fault of anybody except us together. Not us, but our predecessors over 50 years, ended up putting so many barnacles on the way we worked, that we were just denying the benefits of capital in productivity, and it didn't work. So we had a big change back in '03 and took out 35 percent of our workforce, probably?

SPEAKER: Yeah.

MR. SURMA: Greater on the salary side than even on the union side I think, as it all turned out. And we ended up with a much more productive workforce. Those folks were all treated with dignity, they all received an exit payment pension, everything was fine, nobody complained I don't think. And today, we're a much more competitive company.

And our costs from a wage and social cost standpoint are not a competitive disadvantage. And 20 years ago, Leo will tell you -- 10 years ago, wage and social costs were the access of competition in the world in our sector. And we would complain about the Europeans and what they paid for, what the Japanese paid for.

Today that's not the issue. We're way productive. More productive than most of the other countries in the world from the steel standpoint, and by the way, the most environmentally efficient and reduced carbon steel industry in the world as well. The highest recycling, lowest carbon emissions, and lowest overall environmental emissions in the world. That's what our industry is. And we did a lot of that together.

MR. GERARD: Let me say something for John. U.S. Steel, four years ago, had already met and exceeded the Kyoto Protocols, four years ago.

MR. SURMA: We were one-third below our carbon emissions from 1990. Way, way beyond anything the Kyoto folks talked about. You know why we did it, by the way, not because someone told us to, because it was really good business for us. We use a lot less energy to make the same kind of steel.

So I think it's a long answer, Martin, I'm sorry, but I think --

MR. BAILY: No, no.

MR. SURMA: -- the story I would give you is that we found enough things that we could agree on, and when we meet regularly we try to focus on things we agree on and not usually on the things that we don't agree on. And we give those things to other people to figure out.

MR. BAILY: Thank you. And I'll turn to Elisabeth who's here despite the sickness of her daughter, which maybe has created a few bugs in you, too. So we hope you get through this presentation --

MS. JACOBS: Exactly.

MR. BAILY: -- so if she vomits, it's not the economic situation, it's the home situation.

MR. GERARD: As long as it's not our presentation.

MR. BAILY: I'm sorry. I shouldn't have. You told me and I took advantage of it. Okay, so Elisabeth has written a really wonderful paper. Back some years ago, I wrote a book with a colleague over across the street on Europe, and the model in those days of a European economy that had done well in its labor market was a Danish flex security system. Denmark is a very small country. It would be hard to sort of transport some of the institutions that they had to bigger countries or to the U.S.

But Germany is a big country. It's gone through some transformations. It's doing some things the same and some things different. And Elisabeth particularly, is talked about the labor flexibility and some of the working time accounts that they've been set up. So Elisabeth, could you tell me some of that and how you think it's affected how they've gone through this economic crisis?

MS. JACOBS: Sure. So the starting point for this paper was really the fact that -- despite the fact that the contraction in Germany's GDP was actually larger than the contraction in U.S. GDP during the great recession, their labor market took a slight hit, and then it's continued to improve. It was doing well before the recession, and it's really continued to do quite well.

Unemployment is down compared to U.S. unemployment. As everyone in this room knows, our labor market is really hurting. And so the question that, you know, -- I came to this project with the question of what's Germany doing right, and what can we learn in the U.S., potentially to borrow from abroad? This is a sort of -- it's a new perspective for me. I'm not a comparativist, but I came off of several years on The Hill working on stimulus health insurance reform and then looking more broadly at this very slow recovery we're in the middle of, and feeling like the dialog was really stuck.

And so that was how I ended up turning to this German comparison. And what I found is -- kind of the top line explanation, is German public policy embraces this program that incentivizes labor hoarding. So it incentivizes companies to hold on to their employees, reduce their hours but don't fire them, so that when the economy improves you can ramp back up.

And there are public policies in place in Germany specifically, this short time compensation or work sharing program, which essentially lets employers collect money through the unemployment insurance system that then is passed along to workers whose hours are reduced. So when workers' hours are reduced, their salaries aren't fully cut back equivalently.

So workers get some security and employers get to hold on to their employees. So that was my starting point. I knew that before I started the project. A lot of people in this room, if they've heard the German-U.S. comparison, may have heard that particular point. And in thinking about it a little bit more and in starting to dig into some of the literature, it was very clear that that wasn't enough. It's not just like -- we can't just transplant this, oh, we should have short-term compensation here in the U.S.

For starters, we've tried and it actually hasn't done very much. There was sort of, bigger questions worth asking about how German business, how the German government, how German employees, how German unions, what Germans refer to as the social partners, kind of how they interact and how they think about kind of their public project of building an economy. How does that work in Germany?

And really, I mean, as people in this room probably know, it works quite differently than it does in the U.S. There's much more of a commitment to sort of -- a long view they have very public policies regarding job creation, regarding a really advanced manufacturing economy, an export oriented economy.

And the government has sort of provided a space, I would say. I don't think the government has actually really done the work, it's really the social partners, which are the employers and the unions, which are far more powerful in Germany than they are in the U.S. But I don't think that means that they're not worth paying attention to.

They really got together in a room over the course of decades, and have put together kind of this -- I've called it a flexible working time tool kit, something along those lines, with this idea that if you're thinking long view, it doesn't really make all that much sense to fire all of your workers during a recession because when recovery comes along, you have to re-hire workers, you have to re-train them.

In Germany, that's extremely expensive because employers put so much time and energy into training their workers. It's a very different set-up than what we have in the U.S. And so, in looking at all of this and digging into, kind of, the private policy around labor markets it's very clear that these working time accounts that Martin mentioned were part of what developed in this working time flexible tool kit with private employers.

Working time accounts, sort of, the short-hand is if you think about a time bank. If you're an employee and you're working the union is conceited in the interest of employment security to allow their employers to basically keep track of their time. They were allowed to be -- required to work overtime in good times and they accumulate hours in these accounts.

And what happens then, in bad times, is that rather than, you know, taking a cut, they basically draw down those accounts. Now it's not immediately obvious why an employer would want to do that, right, because there are no immediate cost savings to letting an individual just draw down this, sort of, imaginary saved time. It's not imaginary if they did work it, but just in the past. And this issue is the way that these programs were designed, and this is, I think, because of savvy negotiation on the union's part, is if you want to fire a worker during a recession who has a working time account, you have to pay out a pretty large severance.

And so, it's less expensive for employers to hold onto these workers, in addition to this, kind of, long view of wanting to hold onto your worker because they're going to be quite valuable to you after the recession is over. There's also a short-term cost, because you have to pay out a bunch of money at exactly a time when you're probably, you know, cash poor.

And so, it's not just the public policies that many of you in the room have probably heard a bunch about. It's also this evolution over time of these flexible working arrangements. And I think, sort of, going back to the big picture in terms of how labor works in Germany, you know, Germany for a long time was seen as the sick man of Europe.

Its economy wasn't doing particularly well, its unemployment was quite high, they dealt with, you know, as Klaus Kleinfeld was saying in our lunch earlier, he would have talked about the fact that, you know, Germany acquired a pile of rubble. So many people in the economic literature have talked about what it meant for the German economy to absorb East Germany. And over time that meant that business and unions had to really sit down and figure out how they were going to survive in the long run.

And unions and businesses both looked forward, wanted to maintain the sort of productive, competitive economy, and really made some concessions that have allowed for a lot more labor flexibility. Now comparing that to the U.S., it's not that Germany looks exactly like the U.S. I think that's an important point to make. Germany didn't succeed because it decided to make itself look just like the U.S. in terms of flexibility.

Germany is far, far more unionized than the U.S is. Employment protections in Germany are far, far stronger, even after a major overhaul of their unemployment insurance reform system. It's far more generous, far more focused on training, getting individuals back to work effectively, evaluation, they have wage insurance.

I mean, all kinds of policies that are still kind of pipe dream policies even for progressives in the U.S., are all very much in place in Germany. But they got rid of some of the labor market rigidities that, I think, were potentially kind of dragging down the economy in the decades prior.

And the result has been -- I argue that they've potentially hit a sweet spot that's really let them weather the recession in a way that looks pretty different from what the U.S. has been through. So that's kind of, the quick and dirty summary of the paper. I have some recommendations. I think the key for the U.S. if we want to -- the lesson to take from Germany is really to incentivize the kind of behavior that Germany has come up with.

I think that the two admirable folks we have here are in some ways an exception to the rules, so it's exciting to have them here. But I think it's unusual for people like this to sit down and really kind of have the mutual respect and a long view of the fact the workers and employers really do have a shared interest. That's unusual.

So figuring out ways that the U.S. can potentially incentivize that kind of thinking through policy is kind of the macro recommendation. And then I have some specific ones, but I think that's a big picture project that we haven't really put much time or energy into.

And we -- I include myself in that we -- and I'm just starting to really think about ways that we might be more effective in incentivizing that kind of thinking, because there's some evidence that it has the potential to not just be good for workers, but also be good for the macro economy in the long-term, as well.

MR. BAILY: Okay. Let me push back on you in a couple of ways. One, you sort of compared the U.S. recession and Germany, and you say the drop in GDP was about the same. But let me just question whether the recessions really were that similar. As I think Gary correctly identified, we had this real estate bubble collapse, and it's that that's really at the heart of the persistency of the recession we're in now. We just don't seem to have the same umph coming out of a recession that we did in previous recessions in '82 or '75 because of this loss of wealth and the housing bubble. So I wonder -- I mean, if you look back, Germany had a housing bubble following reunification, and I think they had a pretty persistent period of weakness after that.

So I think those -- I wonder if these recessions are quite as similar as one might think on the face of it. And then the second thing is, there are a lot of problems in Europe right now. What Germany has done is been very successful at being very competitive. They are competitive in the global economy, but the way they are really competitive is within Europe.

So they've been able to out-compete all their neighbors in Europe. And I was in a session the other day on a panel with some German folks and I said, look, you guys are all in the same lifeboat. And Germany has made itself super competitive and Greece has fallen off the boat and Italy's about to fall off the boat. So to what extent has this -- so number one, is the recession really the same? And number two, has Germany been successful in part at the expense of its neighbors?

MS. JACOBS: To the first question, I think you're right. I mean, Germany didn't have the housing bubble, and it means that it's not necessarily an apples to apples comparison. That said, I mean, Germany did have its own financial crisis. I'm not super well-versed on the intimate details of Germany's recession, but it wasn't completely unlike ours.

So I don't think that they're so different that it's worth saying that this is just not worth looking at. And in some ways, I think this kind of gets to your second point, that in my mind I don't actually think the most interesting thing coming out of the thinking and the work that I've been doing is so much getting the precise answer to why Germany does well.

It's more thinking about whether there are new ways of thinking about problems that we've been kind of stuck in, in the U.S. that might move us forward in any direction. So that might be dodging your question. In fact, I'm quite sure it is, but I think that's how I would go with --

MR. BAILY: Wouldn't be the first time.

MS. JACOBS: -- answering it. And I mean, I can, you know, give my two cents on whether Germany is succeeding at the expense of Europe. I mean, it does actually seem, you know, my house -- my home at Brookings is in government studies, and from a government's perspective it seems to be very -- it's a very easy case to make that Germany really is succeeding at the expense of Europe.

And that's a separate conversation, and not necessarily what I was aiming to get at in the paper, but one that's certainly worth having.

MR. BAILY: Well, thank you. And, I mean, Germany is really amazing. It's economic -- it's manufacturing at least. Not so much services, but the manufacturing performance. I mean, high wages, they don't work that many hours, they have long vacations, and yet they're still able to be very competitive, not only within Europe, but outside.

So there's something they're doing right, and I think you've told us some really interesting things about Germany. So I'm taking out of this discussion then that we need to focus on manufacturing. There's a view here that we need to -- we've been treated unfairly in trade, and if we could somehow change that we would get a lot more jobs.

We've obviously got to use technology effectively to make ourselves competitive. And maybe we should think about the way we operate our economy, not so much short-term as in thinking about how to use human resources more effectively, not just get rid of them as soon as there's a downturn. In some sense, be a bit more like Germany.

Okay, so let me throw now the discussion open to the audience. I'd be interested in comments, pro, con, or a little divergence. Have we got some questions?

MR. ROGERS: Hello, my name is Keith Rogers and I have a question that's a little bit of a segue, but it does seem to me that all over the world we are seeing a huge problem of the collapses of terribly built concrete buildings in earthquakes and other natural disasters.

Where's the reinforcing steel? Is there any economical way that the steel industry could meet those needs either with the reinforicing or other steel components that would stop all these terrible problems we're seeing?

MR. SURMA: Well, certainly I think steel is, we think, the best construction material. We have that debate with builders about whether to be steel oriented or stress reduced concrete. I think in other regions there's not nearly the applications of reinforcement that you would see in the U.S. or other developed areas.

We're members of something called the World Steel Association. We do evangelical work in all sorts of undeveloped regions to try to promote the use of steel and local applications of steel. Because when you think about the basic elements of life, you know, shelter and warmth and water and mobility, steel is central agriculture to all those things. And construction, broadly defined, consumes about 50 percent of the steel in the world, and the biggest breakthrough markets is steel in housing applications, usually multiple dwelling applications, in the underdeveloped part of the world.

And it's the question of expediency versus building something that's going to last. If you go -- you're in the Gulf Coast in the U.S. today, or if you're in fire prone areas in the West Coast, steel roof, steel frame, if you're in mold or -- steel framing. So, I think, essentially codes take care of that. But in the developing world, there isn't nearly the kind of progress on that as we'd like.

But we're trying to work on that because it's a wonderful market. I'm not sure if that helps at all.

MR. GERARD: Let me jump in, because not all steel is the same. I know -- I'm not very good at the social media stuff but if you go and Google the Bay Bridge in San Francisco, you'll find that there's a bridge there that's three years behind schedule and almost $2.5 billion over budget that somebody decided would be better if they made it with Chinese steel.

And the Chinese steel won't hold a weld. So when you talk about what can you do, there aren't many applications that we could have in steel that's made in America or in North America for that matter.

MR. SURMA: In most developing countries, the initial steel capacity which is installed is electric furnace based rebar production.

MR. GERARD: Yeah.

MR. SURMA: That's with the initial investment traditionally, and that's the way it is in most of the world.

MR. GERARD: Low end of the scale.

MR. BAILY: Yes, question here.

SPEAKER: Antoine (inaudible). I was really wondering listening to you about Europe. Clearly, there are some very serious reasons to be concerned about what is happening in the Eurozone. But my sense is that we are overlooking something. What we're overlooking is that there's a real difference between what you could broadly call Northern Europe and Southern Europe.

I for one, Martin, don't believe for a minute that Germany has become competitive only relative to the rest of Europe. It has become competitive in comparison to the rest of the world. They export things in competition with everybody else in the world to China.

MR. BAILY: I don't necessarily disagree with that. I mean, they had a very firm policy of holding wages down.

MR. ANTOINE: Yeah.

MR. BAILY: And there's a lot of resentment in Germany about that, but --

MR. ANTOINE: And that is actually the point I was trying to make, is that Europe has been facing -- Northern Europe, I'm talking about now, has been facing some of the same issues that we are facing at the moment, and has taken action which we have not yet fully done. And as a result of which, things have changed.

Not just in Germany, but in Holland, in Denmark, in Norway, in Sweden, all over Northern Europe. And they have brought about -- we pride ourselves on labor mobility. Well, labor mobility according to some of the things I've seen in Northern Europe now, is higher than in the United States. That had a reason, and the reason was they took some action. And I think that is what is being overlooked in this discussion. I would like your comment on that.

MR. BAILY: I agree with that, and if I said something that disagreed with that, I take it back. But why don't I give Elisabeth a chance to respond. Or do you not want to go outside of Germany? But what's your reaction to that?

MS. JACOBS: No, but I think broadly the point that -- I mean, I can bring it back to Germany, that Germany got where it did because it took some action. I mean, particularly, Chancellor Schroder put a lot of cards on the table in terms of making real progress towards overhauling the way that Germany balanced essentially opportunity and security. That's kind of the umbrella framework that I use for thinking about my work, and I think it applies to Germany because Schroder sort of put everything on the table.

He arguably lost his government because of it, but he accomplished reforms that wouldn't have happened if he hadn't. And I think while some of the evolution of what was happening in the private sector outside of the hearts reforms, which mostly had to do with unemployment insurance reform, but we're broadly within the same kind of policy space of labor relations.

They all fit within the same idea that Germans kind of saw that there was a problem. They realized that this wasn't sustainable, and eventually, for a variety of reasons, they really actually did something about it. And we're not doing that in the U.S. You know, Bill Galston's paper gives a lot of good reasons as to why not in terms of looking at the political dysfunction, and the ways that we're really stuck, particularly, in light of Congress.

And, you know, that's a whole day's worth of conferences to talk about; a kind of political sclerosis in the U.S. But it's having a real impact on the economy and I think not just in the context of this particular recession and this particular pretty flat labor market recovery, but also more broadly as far as our competitiveness and what it means to be an American worker and what it means to be an American business for that matter, for the long run. So that's my attempt at an answer. Hopefully that gets at the heart of what I think the question was about.

MR. BAILY: Yes. More questions? Yes? The one at the back there.

MS. SEGERO: Good afternoon, ladies and gentlemen. My name is Rosemary Segero. I'm the president of Hope For Tomorrow. Our organization focuses on job creation and entrepreneurship.

Thank you for your wonderful presentation. You talked about China and its strategy on manufacturing, and also imports.

Initially, I come from Kenya. That is Africa. How do you look at the importation now that China is going all over the world, especially, Africa? If you are importing materials of steel from Africa and now China is going with their technology and their strategy to Africa. How do you look at your importation of raw materials in the future, and for how long? Thank you.

MR. SURMA: That's an interesting question. I think the premises that -- just for context, the world makes about 1.4 billion tons of steel every year, roughly. China, about 700 million, okay. About half of the world's steel capacity is in China, and the majority of that now, half, two-thirds of it is on imported materials, so China's resource short on iron ore, ferrous scrap, and carbon coal coke, those kind of things. The China companies have been very aggressive in buying resource positions around the world, many in Africa, Latin America, as well. Other places also, even some in Canada on the energy side.

The US and North America for steel making, raw materials is very well positioned. North America is a net exporter of iron ore, a net exporter of metallurgical coal for coke. So there are a few things that are imported from China for steel making in the U.S. that we're concerned about.

And in fact, China was taking steps to limit exports, and the USDR along with some other countries courageously and thoughtfully brought a very strong case that I think we've had a least one positive step on so far. There's more to go there, so I think we need to make sure there are open flows.

But the big volumes, the big values -- U.S., North America, is in very, very good shape. I think some other regions that are also net importers largely from Australia or Brazil, Western Canada, U.S., probably have some other concerns. But its resource competition in the world right now, is very, very important, and the companies in China have been very, very aggressive.

If you're looking to build an iron ore mine, and you go somewhere in Africa, or Latin America, Asia, China companies have already been there. It's very expensive.

MR. BAILY: Let me ask you, we've only got about a minute or so left. If I look at the development strategy that was followed in Asia by a number of countries, it was really a very heavy investment and heavy industry, and China has been down that road.

Are they already, or are they going to end up with a lot of excess capacity as a result of that? Can you tell either from steel or from other sectors?

MR. SURMA: I mean, I don't think anybody knows for sure, but I think the policy that I understand that the authorities in China have espoused, this is in the 12th 5-year plan, or the 5th 12-year plan, whichever one it is, I think the view is that their steel capacity should be roughly equivalent to their consumptive needs, and that seems to be a sensible policy.

There would be nothing in it, either economically or environmentally for China to build a big export machine like the Japanese and Koreans did, is what you're referring to --

MR. BAILY: Right. Right.

MR. SURMA: Materials would virtually all be imported. Iron ore from Western Australia or Brazil, coal, if you can imagine this, the coke and coal market in China is balanced by metallurgical coal from West Virginia. The people in China didn't know there was a West Virginia 10 years ago. Now that's where the coal comes from. So it would be economically really not a good move, plus using energy that's otherwise on allocation, very high emissions just because of the lack of controls.

And so, they say they don't want to be a large net exporter. I tend to believe them, but if there are small blips in their economy and 10 percent of their capacity becomes export capacity, that's 70 million tons. The U.S. industry in total is about 100 million. So it could be very dramatic if something went wrong. We keep a very close eye on it. But their policy I tend to believe because it's actually a sensible policy.

MR. BAILY: We're about out of time, but if you have a last comment, throw it in.

MR. GERARD: Yeah, I wanted to just make a comment about something you said when you started this forum. That you didn't think there was much room for manufacturing growth.

MR. BAILY: Employment.

MR. GERARD: Well, manufacture employment. At U.S. Steel as we work to get more productive my understanding is over time, unless we can expand their market, we're going to have less people.

MR. BAILY: Right.

MR. GERARD: It's just the way life is. But we're going to take good care of the people when they leave because if you ever worked in a steel mill for 30 or 35 years, it's hard work. So we're going to take care of them because I want the companies we work with to be successful so our people can live well.

But one of the things we need to understand, and I'll come back to it, we can't continue to fool ourselves and swallow these ongoing trade deficits in manufacturing. Right now you've heard people talking -- even today, about the future with an advanced technology products and all this.

We're running a multibillion dollar, almost a $100 billion trade deficit with China in advanced technology projects. In the last 4 years, since the recession started, we lost 2.9 million manufacturing jobs in America, and we created 2.7 million manufacturing jobs in China with companies that left here to go there. We can't just continue to say that's okay.

And don't ask me what the solution is, because I'm not smart enough to know the solution. I just know that we can't do that. But I'm willing to get in a room with other smart people and figure out, how can we have a policy that over the next 25 years we grow manufacturing back to 22 or 23 percent in GDP so my grandkid, who maybe can't get a masters degree, can go work in a plant and make $35 or $40,000 a year and be able to take care of his family.

MR. BAILY: Thank you very much. I appreciate everyone in the panel and the audience. And our next panel that’s coming up will also be about some of these labor issues.

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