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PARTICIPANTS:

HOW LABOR AND MANUFACTURERS ARE FORGING MANUFACTURING'S NEW PATH:

Moderator:

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Panelists:

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P R O C E E D I N G S

MR. WEST: So, while these gentleman go down, I will invite our next panelists to come up. That panel will look at how labor and manufacturers are forging manufacturing's new path. The moderator will be Bob Hagerty, who's the manufacturing reporter for *The Wall Street Journal*.

MR. HAGERTY: Well thank you very much. Let me start by introducing very briefly our panelists. Thea Lea is Deputy Chief of staff at the AFL-CIO. She oversees research on international trade and investment policy. She's also worked as a trade economist at the Economic Policy Institute and she's even been a journalist at *Dollars and Sense Magazine* in Boston. As somebody who's been a journalist for well over 30-years now, I always find it a little bit upsetting when I run into journalists who have figured out how to do other things, but I'll forgive her for that.

We also have Scott Paul who is a Founding Executive Director of the Alliance for American Manufacturing. And he's previously worked as a principle lobbyist for the Industrial Union Council and a trade lobbyist for the AFL-CIO. And we have Steven Rattner who is now Chairman of Willet Advisors, the investment arm for New York Mayor Bloomberg's personal and philanthropic assets. Steven is most famous for having saved the U.S. auto industry. But I happen to be old enough to remember that among many other roles at one time, he was also a newspaper reporter for, I believe, a local New York paper.

MR. RATTNER: It's true.

MR. HAGERTY: So I'm just going to ask each of the panelists to talk for a few minutes and then we'll open it up to questions. So why don't you go ahead, Thea.

MS. LEA: Great. Thank you so much, Bob. Good morning everybody. It's a great pleasure to be here, especially on this panel with my old friend, Scott Paul and Steve Rattner who of course I've followed very closely. But it's a particular pleasure for me to be at Brookings because it's a little known fact that I spent a very happy year here between college and graduate school. I was a research assistant at Brookings Institution and had a really fun time in the Economic Studies Program way back about a million years ago.

But the topic that we've been asked to talk about today is so important for the labor movement, but it's important for business too. How labor and manufacturers together are forging a new path. And this is one of those areas where in my view, it's always a nice thing when labor and management can work together. But in the area of manufacturing, I think it's not optional anymore that neither labor nor business can be successful if we don't work together to build a stronger manufacturing sector for the United States.

And I know there's some good signs recently, and we welcome those. There's been a somewhat of a rebound in manufacturing jobs over the last couple of years. President Obama has put a new focus on manufacturing here -- domestic manufacturing here in the United States on in-sourcing. He's talked about ways of rewarding companies that create good jobs in the United States and we think that's very welcome and overdue. Boosting some of the programs like the Manufacturing Extension Program, and so on, that have been helpful.

The Senate and the House are looking at a bill, I think next week, in the Senate. Debbie Stabenow from Michigan has sponsored a bill called, Bring Jobs Home. It's a, you know, fairly small change to the tax rules, but it's all about not rewarding companies that move jobs overseas with tax breaks for those costs, and then also giving some tax advantages to companies that create new jobs in the United States. And we think those are all putting us on the right track. But there are a lot of challenges that remain, and I don't think it does any of us any good to sugarcoat or to pretend that everything's good or healthy in the manufacturing sector because it's not.

And if we're going to succeed we're going to need much more labor management cooperation. The advantages are many. One of the key areas of course, where labor management do today work together is in training and apprenticeship programs and joint labor management apprenticeship programs, in construction trades, but also manufacturing and health care and in education is one of the great unknown success stories of labor management cooperation. And it actually makes sense if you think about it for a minute, because of course, both labor and management have an interest in improving the skills of the workforce.

But when they work together, they bring unique perspectives to that conversation. The employers of course, know where the jobs are going to be, so that's crucial. Nobody wants to be trained for a job that doesn't exist and the employers are unique possessors of that knowledge of where they want to expand. But for workers, it's also important that a skills program have some long-term advantages for the worker, that the skills be portable, not region specific, and it's actually better for everybody in the long-run.

If an employer were to design his or her own training program, it might just be the skills that are needed for a particular job. And that might be useful to that employer, but for the economy as a whole and for a skilled workforce that's adaptable and flexible, we need the other piece of it, and that's what unions bring when they join together. And we have a lot of really successful programs in auto, telecommunications, steel, and aerospace. There's 72 local joint committees in 24 states that are offering courses in renewable energy systems and energy efficiency technologies.

And there are a lot of consortia of unions, management, universities, and health and safety. And this is an area that, you know, we'd like to see more of, and some of these are areas where the government has supported these. But it's also true in terms of technology. That it's important for business as well as for labor, that the government be investing in cutting edge technology and research so that the American manufacturing sector can be successful on a high-road path.

And we all know if you look around the globe, you can see that some of the countries that are successful in manufacturing are high-wage, high-tech countries like Germany or Sweden or the other Nordic countries where it's not about getting the cost of labor down and beating you workers over the head with a stick, it's about management and labor working together. That is the kind of manufacturing sector where the United States has a prayer of being successful. We're not going to get our wages below Mexico, Bangladesh, or China and we shouldn't want to because that's not a country that we want to live in.

But we should be trying to figure out how the United States can be at the cutting edge of high-tech manufacturing and high-road manufacturing. But the other place where I think labor and management need to join together is in politics. Right now this country faces a logjam -- a dysfunctional logjam of I would call it, misguided deficit hysteria, where politicians of both parties are terrified of talking about new spending or about new taxes.

But the United States is not going to be successful as a high-tech manufacturing country in a global economy in the year 2012 and beyond, if we don't invest in our workforce, in our infrastructure, in our communications, in our transportation. And we can't do it if business doesn't come stand by our side. And there have been some -- President Trumka, my boss, and Tom Donahue the head of the Chamber of Commerce, have come together over infrastructure. I think that's exactly the kind of cooperation that is needed.

And let me just say the last piece, because I know we're just trying to tee up a lot of issues before we have I hope an interesting conversation with all of you, is in trade policy and tax policy. And I would say that this is an era where labor and business have not worked together, but should be on the same page more than they have been. And there's a key conceptual era that we have suffered through in this country for the last couple of decades, which is that it doesn't matter where we make stuff so long as our companies are making money.

And that has guided both democratic and republican politics and policies for a couple of decades, but it has not served us well because it has contributed to an economy which is bubble driven, which has extraordinary and unsustainable levels of inequality, and where we're falling behind in terms of technology, innovation, and a workforce development. And we can't afford to do that. So we need to figure out what kind of tax policies, trade policies, currency policies we need to support not just healthy profits for manufacturing companies, but good jobs here at home. And that's going to be the path for success to the future. I look forward to your questions and my fellow panelists.

MR. HAGERTY: Okay. Scott?

MR. PAUL: Great. Thank you, Bob. And I could just say ditto to what Thea said to save some time, but I'll add some independent thoughts on my own, because I largely agree with what she said. And I wanted to first acknowledge that fantastic work that Brookings has done on manufacturing. I think for about a decade, and not coincidentally coincided with the, you know, precipitous decline in manufacturing employment, there was very little work done on manufacturing policy.

You've seen a renaissance in that along with a renaissance in manufacturing, and Brookings has done some of the most groundbreaking and pragmatic work on that. And if you haven't seen it, I bring it to your attention because it does show that there is a high-road path to prosperity in manufacturing, and it really kind of, breaks away from the traditional silos that you sometimes see in reports like this. And I think they've done a fabulous job of that. The Alliance for American Manufacturing is an embodiment of labor management cooperation.

We're a partnership between the steel workers and many U.S. manufacturers that have a collective bargaining relationship with the steel workers. And the idea is -- actually dates back to the time when Steve's former colleague at the auto rescue, Ron Bloom, was at the steel workers. And you all may not remember this because we live from crisis to crisis, but after the Asian financial crisis in the late '90's, there were about 34 bankruptcies in the steel industry in the United States and there was a tremendous amount of consolidation that occurred and there was a lot of turmoil.

And there was a -- it was a private rescue, but there was basically, a private rescue that doesn't look too dissimilar to what was done for the auto sector in the United States recently. It -- you know, it obviously downsized the steel industry, but it made it hypercompetitive and we have the most efficient steel industry in the world right now. A lot of that was because of labor management cooperation.

And actually, the leaders of both the steelworkers and those companies decided at the time that there were some problems that they couldn't solve through collective bargaining or through private enterprise and that they needed to have a robust public policy presence, not only for the steel industry which of course already existed or for the labor movement which already existed, but for the interest of their customers. After all, no one goes out and buys a ton of steel. If any of you have one at home you can raise your hand, but you know, most of you don't buy it. But it goes into almost everything we do buy, like automobiles and durable goods and things like that.

And unless the steel industry's customers are in the United States, they don't face good prospects either. I do think that our approach has started to pay dividends. You see this in proposals that as Thea mentioned, have been put forth by the Obama Administration, that get out of this traditional idea that the only way to strengthen business in your country is to cut taxes, cut regulation, have labor flexibility, do free-trade. That there's another way to do it which is make smart investments in innovation, tie those investments in innovation to production in the United States so that, you know, we're not just spending money to research things, but we're actually making them as well.

Invest in the workforce, be tough on trade enforcement, as I think this administration has, and use other tools in the toolbox. I do think that there are a number of tools that haven't been used yet, and I'm happy to talk about them in that discussion. I want to close with two items. The first is to kind of, preview a poll that we commissioned that is coming out next week. We've done a series of polls on manufacturing the last three-years. The first poll actually -- you know how Washington works. It actually got House democrats talking about manufacturing because they discovered that is was popular not only in Ohio, but also even in suburban Maryland.

And it helped to create a Make it in America agenda a couple of years ago. The poll coming out next week, I think will be interesting to a lot of people and I just want to preview a couple of highlights from that. You hear a lot and of course, Steve heard a lot during the auto rescue about people not wanting to pick winners and losers and how this may be a predominant point of view. The reality is when you put the best arguments for not doing anything against the best arguments for making investments that involve some risk, the pro-investment argument wins overwhelmingly. Wins overwhelming in every part of the country and among nearly every demographic except for hardcore republicans.

Same applies to the auto rescue. I think the public perception is that it's still wildly unpopular. If you put the best argument for the auto rescue against the best argument that the other side is making for not doing it, it wins overwhelmingly. And it wins not only in Ohio and Pennsylvania, it wins in California, it wins in Florida, it wins all over the country because there is a great awareness of what was at stake here and what was at risk and it's paid dividends.

The fastest growing sectors of manufacturing right now are the auto sector, durable goods, kind of, fabricated metal manufacturing. They're growing exponentially, and so -- and these are actually relatively heavily unionized sectors of the economy, so the idea that it's all going to be this race to the south or offshore just defies what's been happening in manufacturing over the last year and a half. And if you don't think this approach can pay dividends, it actually can. We care deeply about China's currency manipulation. We have a strong disagreement with the administration about their approach on this.

We've pursued legislative remedies and there has been exactly one piece of legislation that's passed the Senate in the past year and a half over a Mitch McConnell filibuster that had any sort of substance to it, and that was the China Currency Legislation. That's the only bill that has broken through that gridlock that you see on Capitol Hill. We're trying to get it passed in the House of Representatives, of course, and we could if it actually got to the floor.

But that demonstrates this labor management cooperation because there has been a great deal of cooperation between the labor movement and domestic manufacturers on this piece of legislation, and so it's attracting support from about a third of republicans in the Senate along with nearly every democrat and it's been able to bust through that. But we're looking to put together models of cooperation like that on procurement, on tax policy, and on other things that can make a real difference to the prospects of manufacturing. Thank you.

MR. HAGERTY: Okay. Thank you. Steven?

MR. RATTNER: So I agree with a lot of what was said before, but actually not all of it. So maybe we'll inject a little bit of liveliness into this rather than all of us being in agreement. I certainly don't agree with the idea of picking winners, but I'll come to that in a second. Maybe I'll start with a little bit of what I saw at the revolution so to speak, in the auto rescue because I came to it with no background in manufacturing. We can ask the different question, why I was asked to do this in the first place, but putting that aside, I had no background in manufacturing.

I was really a service industry guy. I certainly read a lot of stories over the years about what went on in the auto industry and manufacturing more generally, but it was all new to me. And so I think I had obviously, a big disadvantage. I also had the advantage of coming to it with fresh eyes. And what we found really, pretty early on and pretty clearly were a few things that I think might be interesting. The first is that from a productivity point of view, the U.S. plants even the unionized ones -- or especially the unionized ones perhaps -- were actually highly efficient.

And when you look at the number of man-hours or person-hours required to produce a car in Michigan versus in the south versus really almost anywhere else, we -- GM, Ford, Chrysler had made enormous progress over the years in improving their manufacturing efficiency and were right up there. The second thing I found -- I'm starting with all the good news, was -- and I remember vividly my first visit to Solidarity House in Detroit where the UAW's headquarters is. And again, you know, I'd read a lot of about the UAW.

I was really taken with how professional they were, how analytical they were, you know, it wasn't a lot of bombast, it was the kind of discussion you might have between two business people and they were I think, very rational. That didn't mean they always agreed with us or did what we asked them to do, but the way that Ron Gettelfinger who was then the president, and his team thought about it -- and they had actually Lasard helping them. They had kind of, hired an investment bank and so on which was -- you know, by now was not actually that unusual for unions to engage that kind of professional help.

I think it was all a testament to the fact that they understood that this was not -- at least completely, management versus labor issue and that there was certainly, a common interest in saving these companies and a requirement for the unions to participate in that effort. The next thing that I found was a set of union agreements that did introduce some level of inefficiency and wasted cost into the process.

GM had something like 300 different job-- and Chrysler and Ford, 300 different job classifications agree with the union if you were in charge of pouring water, you couldn't touch the microphones. Probably have that at Brookings, I don't know, and you know, and vise versa. And that's the kind of stuff I personally hate because that's just wasted money for everybody. It could go into the pockets of the workers, it could go to the company, but it's just stupid to have people standing around because it wasn't their job to do what happened to be needed at the moment.

You had a number of other practices. You know, we all get the Fourth of July off. At General Motors you got the whole week of July fourth off. If you work at a place that pays overtime -- conventionally if you work more than 40 hours, you get overtime. At GM if you work 10 hours on Monday and 4 hours the other days of the week, you still got 2 hours of overtime for Monday even though you had only worked 30 hours the whole week. So there was a bunch of stuff that we just felt didn't work.

And happily, we reached a very reasonably amicable but certainly satisfactory agreement in the end with the UAW, where all those job classifications, all those practices went away. What we did not do was ask the workers at -- I'm using GM as a kind of, metaphor for all three of the Detroit companies. We did not ask the workers to take a cut in their cash pay, we didn't ask them to take a cut in their pension plans, the famous healthcare problem had been already actually dealt with somewhat separately. I can -- that's a longer conversation.

So in terms of the workers who were there, their livelihood was not, I don't believe, affected in a material way. But what we did do was to accelerate a program that had already been started of what they -- of the so-called Tier Two workers, where GM was able to hire a certain percentage of workers at a much different price point. In fact, it was literally half of what the existing GM workers made. The existing GM workers got $28 an hour in cash, the new workers got 14. A traditional GM worker cost the company $55 an hour fully loaded, the new workers cost roughly half of that.

And this is a slightly troublesome issue for me. I'll put on the table, and it has repercussions, which I think one way to think about that was the union basically saying, there's a big pot of money, we can kind of, carve this up in any number of ways, we're not going to really take anything out of the pockets of our existing workers, so we're going to make these new people come in at a cash wage of less than $30,000 a year. These are not great middle-class jobs. And you had two people, you know, working side by side on an assembly line, one being paid $14 an hour, one being paid $28 an hour.

So that's what the union in effect, wanted. That's what we agreed to and the number of those workers has been increasing. So if you look at one of the so-called success stories in autos, GM agreed to move the production of a small car now called the Sonic, from South Korea back to Lake Orion, Michigan. Why did they do that? Because the union agreed to have a much higher percentage of these so-called Tier Two workers there. My point is that a key part of why we're doing better at that moment in manufacturing is because workers are being asked to and are accepting the idea of lower wages.

Another example I'll give you is in Chattanooga. Volkswagen showed up with 2,000 new jobs. I think they got over $100,000 million of incentives from the local municipalities. There was, you know, great fanfare, great celebration, everybody took credit for it. But what didn't get as much attention was that each and every one of those workers started at $14.50 an hour, which is also about $30,000 a year. They've since gone up a little bit, but not anywhere near what workers paid before. So I'm not convinced perhaps, unlike some others about our ability to compete in manufacturing without unfortunately, having to compete on price.

And so for GM, compared to the $55 in Michigan, in Mexico, they pay $7 an hour, maybe a little bit more now. Those numbers are a year or two out of date. In China, $4.50 -- in India, $1. I was in Shanghai a few months ago, I went to the GM plant there, it looks exactly like the plant in the Michigan -- it's just as productive, maybe more productive, with workers making a lot less. So we can talk all we want about wages in China going up, but there's a long way for them to go. I'll give you one more statistic and then move on quickly to finish.

GM four-years ago had something like 85,000 workers in the U.S.; today it has about 50,000. In the same period of time, it's workforce in Mexico went from 9,000 to about 9,300. Not a big increase, but a lot better than eliminating 35,000 jobs. So the trends are still there, and I don't believe that we can reverse them. I think there are a lot of things that my fellow panelists talked about, many of which I agree with, that would ameliorate them and allow us to be more competitive, but I don't think we're going to reverse them. The last thing I'll say, just going back to my first comment, is I am very leery about the government's role in all of this.

I certainly agree that the government has fallen down on its end when it comes to things like infrastructure and R&D spending. That's very clear in the numbers and we all know the reasons why, but I think there is a line. It's not a big, thick black line that I can completely identify, but I think there is a line. And I think when the government crosses over into what I will call, picking winners, and very tardy in the kinds of policies, I think -- I start to get worried.

I was in the government when there were several different programs going on, one of which led to the Solyndra loan, some of which were in the auto sector, and they were run by very nice people, smart people, certainly well-intentioned people. I actually don't believe there's any politics in any of those decisions. But I was in the private equity venture capital business for a good while and it is really hard. It is really hard and the idea of the government doing it is really scary to me. So I think there's a line and I strongly feel that while there's a lot the government can do, we should just try to make sure we stay on what I at least view, is the right side of the line.

MR. HAGERTY: Thank you very much. Thea and Scott both stress the need for -- and the benefits of cooperation between employers and labor, and we certainly have seen some isolated incidents of that bearing fruit. On the other hand, as Steven pointed out, there is still a power struggle going on in terms of who gets paid for what we produce and how much, and at the moment it does seem that labor is losing that struggle. I've been out in Joliet, Illinois a few times in the past couple of months where workers at a Caterpillar plant are on strike.

Caterpillar basically told them, we're going to freeze your wages for the next six-years unless we decide that the market rate has gone up and we're going to reduce your benefits. The workers see this as a pay cut, which it is, and they've gone out on strike. Caterpillar is using replacement workers and going out to recruit more workers and says it can carry on manufacturing as usual. It's striking that there are very few strikes despite the widespread downward pressure on wages and the spread of two tier systems.

Recently, I talked to a worker at an auto plant in Mendon, Michigan. He was very happy to have a job. It's an auto parts plant, but he's making 9.67 per hour. On that he's supporting a family of five, which qualifies for food stamps. This 9.67 he makes is down from the $15 per hour he used to make 6-years ago at Chuck E. Cheese where he repaired the machinery. When I wrote about this incident in one of my stories, the editor in New York said, my God, that's less than I pay my babysitter. And we're probably going to see more of this kind of pressure on workers, people feeling that they have to do whatever the company asks.

Caterpillar is expanding a locomotive plant in Indiana, which has recently passed a right to work law. They were advertising jobs recently for 12 to $14 an hour and they had thousands of people lining up for them. I talked to some of these people, some of who'd used to make 25 to $30 an hour, now would be very happy if they can get a job for 12 or 13. So I guess the question is: how much further are we going to need to go until this wage issue is resolved? And is that going to prevent true cooperation between labor and management?

MS. LEA: Okay, well I'll take a first crack at that. I think it's really an interesting and difficult moment when we think about the economy. And I guess I want to say a little bit more about -- if you look at the macro economy today, we have a never-ending recession. I mean, officially the recession ended three-years ago. I don't think anybody running for president thinks the recession is really over, because it's not. And it's a crisis of inadequate demand. I think every economist would agree that that is the problem; there's not enough demand out there.

And if there isn't demand then business won't invest and then won't create jobs and so on. So the idea somehow that the answer to this is getting wages down further, getting -- you know, convincing more workers -- you know, more union workers to make concessions or busting unions, seems to me completely misguided. That is not the healthy forward-looking path for the U.S. economy because part of what we need -- and I think the innovation question is really interesting too.

For a successful manufacturing sector in the United States, and I know Scott talked about the great work that Brookings has done on this front, we're not going to be successful making, you know, concrete and widgets. We're going to be successful doing high-tech work in the United States. That's what we should be doing; high-tech, capital intensive, skill intensive work. And that kind of work is not one where, you know, chiseling a couple of bucks off of the hourly wage of your workers is going to be the path to success.

What you want is a good long-term relationship with your workers, where they are part of the team that is helping to figure out what the most productive, innovative ways of producing are. And you know, we see this kind of struggle of bargaining power in the labor market in the United States where employers do have a high hand. They have a lot of -- you know, they can go to another country, they can go to another part of the United States, they can break American labor laws without much fear that they're going to be called to account, because our labor laws are pretty weak today.

So they can fire workers for trying to organize a union and they might or might not get caught and if they get caught, they might or might not pay a fine and that might or might not be more than a mosquito bite on their butt. But I guess -- I still think that it's a short-sided path. So you know, manufacturers to the extent that companies like Caterpillar are obsessed or focused on beating back their workers, they can win that battle.

They can fire workers; they can get workers to accept lower wages. But for the U.S. economy to get going again, to rev up, and to have some forward momentum, we're going to need workers to have good jobs, we're going to need to figure out our healthcare problem, we're going to need to figure out our retirement security problem, and that needs to be done at a national level. And if business takes a line in terms of the political debate, that we don't need, you know, a government funded healthcare program, we need to cut back on social security, and we need to bust unions, then we're going to end up with an economy that never does recover.

MR. PAUL: Just to add something very quickly to that, I think it goes without saying that for most of us, we've hopefully seen a once in a lifetime economic event, unless Doctor Doom is right about next year of the following year, in which case it would be a double dip. But part of this is as Thea -- I mean, you know, we're -- I mean, we're in a labor market that is -- where there are millions of people who are looking for work and there are an extraordinary number of people for every job opening.

And one of the most frustrating things to me in the manufacturing sector is, you hear this a lot from the -- kind of, the manufacturing association mafia which is, oh, there are no skilled workers out there. We can't find any skilled workers. Well if you're paying them less than Chuck E. Cheese, of course they're not. Who's going to want to do that and try to get skilled up if you're going to actually bring home less money than you would working at Chuck. E. Cheese? And your job can't be outsourced at Chuck E. Cheese.

Meanwhile, these same companies that are asking you to sign up and get skilled up have outsourced, you know, hundreds of thousands of jobs over the last decade. It's not a surprise to me that you see this disconnect in many areas of the country. I think to some extent, the market will straighten this out because smart employers will realize that if they want a larger talent pool and they want to attract workers that can contribute to the long-term success of their enterprise, they will have to wage raises.

That doesn't address the point about the unionized workforce, which is very difficult these days because of the laws that have been passed. But you've seen a backlash to that in some states, as well. So think that the -- I mean, in theory, there are 250,000 opening according to the BLS in manufacturing right now that are unfilled. And there is a -- and in some places, you have massive numbers of people like in Chattanooga, applying for these jobs at the Volkswagen plant and other areas like -- especially for the small and mid-sized manufacturers.

You know, they have a hard time finding a welder or a machinist, and part of that is that the cost of getting skilled up, the architecture to do that, but also in many cases, the wages are not terribly attractive and you're working in a job that can be outsourced very quickly. I mean, people are not stupid.

And this is unfortunately, I think -- I don't view this as a structural problem; I view this as a lack of management imagination in attracting a good workforce that way.

MR. RATTNER: Well, let me say two things. First, there is a skills problem. There's no question about that. And you mentioned Chattanooga and they had all these applicants, but when they actually got these people in the door, they realized they didn't have the right skills and so they sent over engineers from Germany to train them. So we obviously need to do a better job at a lot of that. But look, I just want to be sort of clear about my own view. I don't think this is as much or very much even at all anymore, a management versus labor issue.

This is a U.S. versus Korea issue, a U.S. versus China issue, a U.S. versus Thailand issue, certainly a U.S. versus Mexico issue. The management is I think -- and I guess where I disagree with some of the previous comments, I think management are rational actors. I think they're profit maximizers. That's their job, that's what they get paid to do just like Mitt Romney. And what they're trying to do is figure out how to do this at the lowest cost. And factoring in the skills, factoring all of this stuff in, they reached a set of decisions that this is the road they're going down.

And we're not going to -- I don't believe we can or should give up our basic position as a free trade country, and therefore, we're going to have to compete with these other countries and we're going to have to find places, industry sectors, ways that we can do that. And I think if we don't accept that or if we somehow think that this is all going to get solved by trying to get the surplus auto workers in Michigan down to some other part of the country or this or that, I think we're kidding ourselves. I really do.

MR. PAUL: Steve, do you think what China's doing is free trade, though?

MR. RATTNER: No, I think they're totally --

MR. PAUL: Exactly. I mean, if we had a much more vigorous trade enforcement currency policy towards China, that would --

MR. RATTNER: Yeah, that would be wonderful.

MR. PAUL: -- defer some of the --

MR. RATTNER: -- but that I'm not sure is possible anymore. It would have been possible before they bought a trillion dollars worth of our debt, but I'm not sure we're in a position right now --

MR. PAUL: They export a third of their goods to our markets --

MR. RATTNER: I understand that.

MR. PAUL: -- so we have more leverage.

MR. RATTNER: Well, I'm not sure about that.

MS. LEA: But the other thing -- Steve? I don't disagree with you that management are rational actors. The question is: they have a short-term lens which is the way -- you know, their jobs are constructed, you know, profits in the next quarter. So you have several different issues from our point of view, from the national interest point of view. One is short-term versus long-term, and the other is national interests versus an individual firm's interest. And so that is where we get back to this issue about what the government role is. What is the proper government role in terms of --?

MR. RATTNER: Yeah, but I don't know what that means. If you're saying that the government should essentially put in place a series of laws that fundamentally change labors ability to get higher wages or mandate higher wages for that matter --

MS. LEA: No.

MR. RATTNER: -- I think that would be a disaster.

MS. LEA: I'm talking about the decisions -- I mean, for right now, we have tax breaks for moving jobs offshore. We could have tax breaks for bringing jobs back home. We have constructed a tax code for the interests and the profits and the short-term financial interests of multinational companies. And that's not good for the country.

MR. RATTNER: I don't disagree about our tax code. It is a real mess and it's a problem and it does create some perverse incentives. But -- and I don't mean to keep repeating myself, but if you're competing against the country where the wages are a sixth of the wages here and they're just as productive, it's not the tax code that's fundamentally the problem.

MR. PAUL: Although --

MS. LEA: But that's a copout because --

MR. PAUL: I would say it's --

MR. RATTNER: It's not a copout. What do you mean it's a copout?

MR. PAUL: For most manufacturing today, labor costs are nine percent or less of the cost of production. It's a factor, but it is not the factor. The factor -- exchange rates, energy costs, you know, the innovation and infrastructure architecture that we have in our country, kind of, the attitude that we have. We have short-termism that gets in the way of long-term business --

MS. LEA: We haven't invested in our own infrastructure and transportation for a couple of decades now. We have a $2 trillion infrastructure deficit. China doesn't have that, Germany doesn't have that. It's not just a question of whether the government picks winners or losers, which I agree is, you know, a little bit difficult and a little bit controversial. But there are a lot of other things that governments do that make a difference to manufacturers. One of them is investing in garsh darn infrastructure and making it profitable --

MR. RATTNER: Okay, we all hear you about infrastructure, so --

MS. LEA: The other is investing in education. But our country, our -- you know, go over to Congress and listen to the debate. We're not investing in our education, we're not investing in skills, and we're not investing in infrastructure because we're trying to save a few bucks. And that's the point that I'm trying to make, is that if the government doesn't do its part, manufacturers will make the wrong decisions and we will all suffer.

MR. RATTNER: I think one of the most successful elements of the tax code changes that were made over the last couple of years, was the immediate upfront deduction for plant equipment expenses. And it unleashed a barrage of investment in new technology, but it shows how incentives work. There was no incentive like that for human capital. Zero. It was zero incentive for -- like that for human capital.

And in fact, it costs a lot to train someone up and everyone else wants someone else to pay for it. The employer wants, you know, the worker to pay for it or the government and so there's -- unless we figure out a smart way to have an incentive for investing in human capital, I think we are going to run into the same. And I'm not saying that we're Germany or we're ever going to be Germany, but we can certainly draw lessons from their approach if we want a sustainable manufacturing base in the future.

MR. HAGERTY: Do we have any questions from the floor? All kinds. Yes?

MS. CLINE: Hi, Andrea Cline, development consultant. I have a question particularly for the AFL-CIO and the Alliance. With regard to training, how are you using IT, particularly broadband? If the cost of training is considered high, how are we taking technology to its greatest use to bring down that cost, but also maintain quality assurance?

MS. LEA: I don't know if you have a --

MR. PAUL: Well, let me comment briefly because there's a -- I mean, one of the challenges that -- and there is -- I do want to say, there's a lot of state and federal program money for training. Most of it gets misspent, because it's all about getting an outcome in a couple of weeks as opposed to training someone for a career like that. And I think that there has been a pretty sophisticated use of technology incorporated into workforce training.

I think the challenge is that the monies that are provided for this are much more geared towards getting someone to be a greeter in Wal-Mart in three weeks than building someone the skills they need for a manufacturing career over time. Now, that is beginning to change and the administration has a program called, Skills for the Future and there's a number of private sector partners and also academic institutions engaged in that. But this is like turning a large vessel around. It's not going to happen overnight. But I do think that there's a lot of technology involved with skills and training already, it's just that we're training for a lot of the wrong things right now.

MS. LEA: And there's one program that I'm more familiar with which is, the National Labor College which is associated with AFL-CIO, and they are really broadening their online outreach. And that's more of a degree program of helping workers get degrees, but in some very specific areas -- but I agree with you, that we ought to be figuring out how we can make this more cost-effective, make it available to more workers, and there are a lot of, you know, webinars and IT.

And I know that we have also the Workforce Investment Board, where we have local labor folks who sit on workforce investment boards all around the country. And part of what we do at the AFL-CIO and the Working for America Institute that works with us, is trying to figure out how to get them, you know, the most timely information to make sure that they are up to speed. So that is a good question. Thanks.

MR. HAGERTY: Yes? Way in the back there.

SPEAKER: Thank you. Danny (inaudible), with China's (inaudible) Agency. One hot issue nowadays in Europe -- excuse me, and some emerging economies is an idea called a Third Industrial Revolution propounded by a U.S. scholar named Jeremy Rifkin from the University of Pennsylvania. He's talking about the next economic driver -- the big driver, based on the green economy. And to some extent, the U.S. economic a success in past decades is based on the abundance of a cheap oil automobile and road assistant several decades ago.

But now lots of attention in this town is focused on providing a short-term remedy to the long-term problem, including the fiscal cliff and the extension of a federal reserve's operation. How can this country pursue more aggressively to grasp the Third Industrial Revolution chance? And what's the good time window for that? Thank you.

MR. HAGERTY: Who wants to address that very difficult question, but very good question?

MR. PAUL: I don't want to hog all the time. I'm just going to spend about a minute talking about this. First, I think that -- you have to understand that -- I mean, there is an energy revolution in the United States right now. It's in natural gas and it's bringing down energy costs for energy intensive manufacturers, and that is one of the cost drivers that's making them exceptionally competitive on a global scale right now. In the longer-term, I think you're right. I mean, we mastered solar technology and wind turbines a generation ago. And we eliminated production incentives for that.

The innovation, the production went overseas and so Germany is one of the world's leaders in solar. It's not because Germany is a sunny place, it's because they made, you know, specific public investments in trying to grow that sector. And you know, we're struggling right now. I mean, you know, David Cicilline and Don Manzullo agree on some things, they disagree on many. But you know, the simple act of getting tax credits -- even though there's tax credits for other types of energy transmission in the Unites States, tax credits for solar and wind is a difficult proposition in this political environment on Capitol Hill. It's a struggle and we are missing out. No question about it.

MS. LEA: And I think this is an area where you can have a government role where the government can see with clarity, any idiot can see with clarity that we're going to need more energy efficient forms of production and heating and transportation in the future. It might not be profitable today to invest in those things, so governments like Germany and China can see that with clarity and they act on it by creating a market and by capturing a share of that market. And we all know the way markets work, that there is a certain dynamic.

It's not just, you know, at any one moment in time, you assess whether it's profitable or it isn't profitable. It's that once you've gained some traction, a market share, you're much more likely to be able to hold onto it. And that's where -- it seems to me a very good use of government incentives to be supporting. I mean, another area where the government could be more active is in retrofitting public buildings like schools.

Our schools are very inefficiently heated right now and we could have more demand for solar, for other kinds of renewable energy by making our schools more efficient. It would create a lot of jobs, it would save the government money over the long-term, and yet, you know, people over there in Capitol Hill are sitting there squabbling with each other over, you know, the transportation bill.

MR. HAGERTY: Ah, yes? The lady in the red there.

MR. MCMINN: Hi, my name is Chris McMinn. My question is for Steven. In the last panel, one of the panelists said that we spend a lot of money on incentives for biotech. What industries or sectors do you think the U.S. should focus its energy on?

MR. RATTNER: I think that our -- you have to look at where you have a comparative advantage. And I think we still are the leading country in the world of information technology, of media certainly, of all those kinds of businesses. And I think that's where we do have a comparative advantage. I think we -- well, you know, we talked a lot about the skills of our workforce. We still do have a very highly educated and skilled set of people close -- you know, further up on the food chain.

And I think we should try to take advantage of that and develop those industries. You know, again, I think we all agreed -- I think maybe the only thing we all agreed about was that we shouldn't be trying to compete in the cement business or very prosaic kinds of businesses. I think we need to look at places where there's a high value added component to the labor that goes in, a lot like what Germany has done somewhat by accident, somewhat by design in terms of their success in machine tools and other very sophisticated products like that.

MR. HAGERTY: I see a gentleman here.

MR. TYLER: Good morning. My name is Darrell Tyler. I am with VCU's Center on Human Need and I'm an economic Social Researcher for them. And my question is this: with the efforts for high-tech jobs and skilled intensive jobs, there are populations of people that are at the lower social economic strata. And what type of future do you see for them since the future as you said, were for high-tech and high-skilled jobs?

I mean, we still have issues of manufacturing jobs being created, but they're being created out in post-suburbia where public transportation does not take job seekers to jobs. Or you know, you've got just populations of people who are socially alienated from any type of jobs or manufacturing. What do you foresee as the future for those job seekers?

MR. PAUL: Just briefly, I want to talk about the steel industry, because the steel industry was obviously built around urban cores in, you know, northwest Indiana, Cleveland, and some other places and you know, notwithstanding the long-term prospects for industry. And I do think that in both fabricated metal and primary metal we can be globally competitive for a long time. But there's going to be a tremendous amount of demographic changes that occur in this industry and the folks working in these mills now and in many of the auto plants, are getting towards retirement and there are going to be opportunities for young people in these urban areas to work in this more traditional manufacturing that is now very high-tech.

And I know that our stakeholders are actively reaching out to very disadvantaged school districts to try to show young people what the opportunities are. That there will be opportunity in their community even though there hasn't been for a long time, and that they should consider getting vocational education in high school, pursuing a community college curriculum. In fact, they're willing to pay for it, really for a lot of them. They're desperate to fill the pipeline. But I think you'll see more opportunities than we've seen in maybe a generation in some of this traditional manufacturing, because of the demographic turnover that's going to occur just naturally.

MS. LEA: And I have something to add to that as well. I think -- we actually do have some programs and they're smaller than we'd like them to be, but some of the apprenticeship programs are really doing a good job reaching out to inner city youth and so on, to non-traditional both manufacturing and construction. But I think there's also a program in Chicago which is really interesting, where you have a labor management and the city working together in a school -- a public school. And I don't know if it's a charter school -- do you --

MR. PAUL: Austin Polytechnic.

MS. LEA: Austin Polytechnic where you know, you have an urban area which serves a lot of kids of very diverse backgrounds, and you're training these kids in high-tech energy, sort of, new energy areas in manufacturing. And that's something that's been extremely successful and they have good relationships with the local businesses and so on in terms of placement. But -- and there's no reason why manufacturing can't be in urban areas as well as in ex-urban areas.

MR. PAUL: One market solution to this problem of the skills mix match I think is the growing realization among young people and their parents that it may not pay off to spend 200 or $300,000 on a college education for everybody. And young people who will look around will see that there are some opportunities to start earning money immediately while being trained at the expense of their employer, often. I recently met a young man near Pittsburg who works in a machine shop. He was about 21-years old, high school graduate, making $65,000 a year.

His guidance councilor told him, “Don't go into manufacturing, go to college”. He decided he was going to start working. He's making good money, he has no debt, and he figures that he will be able to go to engineering school eventually at his employer’s expense.

MR. HAGERTY: Yes, sir?

MR. HARRISON: Hi, my name's Glennon Harrison with the Congressional Research Service. And my question and perhaps comment, is that, you know, there have been a number of surveys of manufacturers. And frequently, like the Manufacturing Institute, the Conference Board, and others, and they've basically said that training really for the most part, you know, isn't something that they should be doing. You know, and -- you know, they've gone in for a lot of, you know, community college programs, there are a lot of schools out there that are for profit, training institutes, and whatnot.

You know, students require a significant amount of debt, you know, getting the training. And once they do -- and for instance, the Manufacturing Institute said that there are 600,000 jobs that are open that are available right now for skilled workers. Well you know, I heard the statement a little while ago and I agree with it, that there are only 240,000 jobs in the manufacturing sector that are, you know, currently open and the turnover is pretty rapid for those jobs. So I guess, you know, my question of concern is that, you know, why would somebody, you know, really want to rack up debt for a job where the technology is likely to change, where it's constantly evolving, where skills shift from -- you know, where the mix of skills for any particular job is likely to shift at any time?

And that's certainly happened over the last few years in everything from steel to autos to you name it. Computer technologies, to any type of assembly work, which mostly has been recognized by everyone as automated. And so if you could just comment on why young people would be attracted to this and perhaps explain where the -- you know, if you know, where the 600,000 vacant jobs are that are begging. And also the other comment that the Manufacturing Institute NAM made was that most current workers -- I think about a majority -- just over a majority, lack problem solving skills and aren't capable of doing the jobs that they currently hold. Now -- I mean, where does that come from?

MR. RATTNER: Well I think that the experience generally is that people who have math, science, and problem solving skills do have much better employment prospects than most of us. And so I think that is an incentive for young people and middle aged people who are re-training, to study this kind of a course and for employers to invest in them.

MR. PAUL: I don't agree with the 600,000 number. I mean, it's from a survey of -- kind of, an opt-in survey. It's not -- I don't view -- I view the actual number of job openings as being a much more kind of, market. Not a lot of accurate information there. But I will say this: I'm not worried about the ability of fortune 500 companies to attract a skilled workforce. They have enormous human resources outreach, they have capabilities that way, and they have -- I mean, they have an obligation and as Steve said, they are rational actors when it comes to this and they're going to -- I mean, they're going to find a skilled workforce.

I'd worry about the small and mid-sized folks. The machine shop guys where there are 10 and 20 people, where there's an owner who's running around, the machinist or the welder who he's had for 30-years decides to retire, and he's got to find someone with the skills. Now that is a problem and it's a bit of a structural problem and here's what I mean. I mean, it takes a while to turn the ship around. I mean, we haven't had job openings in manufacturing really for a decade. For a decade. And you know, community colleges respond to demand. And you know, there are more programs coming online now for technical skills for manufacturing.

But it takes a while to reach critical mass. I think eventually it will get there, but I'm a firm believer that you need both through the tax code to provide manufacturers with the same incentive to invest in human capital as they do in plant and equipment, number one. And number two, I think you have to have much more flexibility in our job training programs to allow for longer periods of time and more resources, because it will take perhaps 18-months of community college plus an apprenticeship, to become a skilled machinist or a skilled welder in some cases.

MR. HAGERTY: Do we have time for one last question or comment? Yes, sir? Right here.

SPEAKER: Thank you. My name is (inaudible) from (inaudible) company Japanese (inaudible). I think the United States is still one of the best friendly markets for (inaudible) direct investment. And recently (inaudible) Industries opened up the factory and the Japanese is still investing in this country for manufacturing. But you raised issues of a skill gap or lack of infrastructure or so many issues. Do you see the (inaudible) direct investment coming? Inflow is getting some trouble or the trend? What would be the trend? Thank you.

MS. LEA: Thanks. I guess I haven't looked at the most recent numbers. I don't know if Steve or Scott knows what it is. But you're absolutely right that this has been a good steady source of jobs for the United States. It's an important source and I think it's another reason why we can't afford to take our eye off the ball. That we need to -- you know, we need to keep investing. I think for a long time, a country like the United States can ride on its past glory. You know, that we had good infrastructure that was put in place many decades ago, and a lot of its durable.

And we have -- you know, we have pretty good public schools compared to a lot of the rest of the world, but there's a lot on inequality right now I think, in the public schools. I think that's one of the concerns that I would have. The very huge variation between rich and poor public schools; what's available to kids in different kinds of neighborhoods. And my daughters just graduated from D.C. Public Schools. So I have very first, you know 12, 13-years in the D.C. Public Schools to watch just how messy the problem of public education can be.

But I think the point that you raised is really important, because this is something where, you know, we can -- we need to do our best to attract foreign investment. From my point of view, what we don't want to do is to say, we want to attract foreign investment because we have the lowest wages, the weakest unions, and the most lacks environmental -- in health and safety regulations. We want to do something else; we want to be a place where people can come for skilled labor, for good, dependable infrastructure, and a good market -- a good consumer market. But we're going in the wrong direction if that's where we want to go.

MR. HAGERTY: Okay. We can probably all agree on that. Thank you very much.

MS. LEA: Thank you, Bob.

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