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Providence for Manufacturing: The Cicilline Plan

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As the presidential campaigns trade barbs over outsourcing and concerns re-emerge about the strength of the recovery, the role of manufacturing sits center stage in the political debate. For much of the nation's history, manufacturing was a critical part of the broader economy and almost single-handedly powered growth for generations. Of late, however, the manufacturing sector has faced serious struggles due to both domestic and international forces that have simultaneously changed needs at home and transferred tasks abroad. Policy analysts, politicians, and private sector leaders have sought meaningful, lasting solutions but with limited success.

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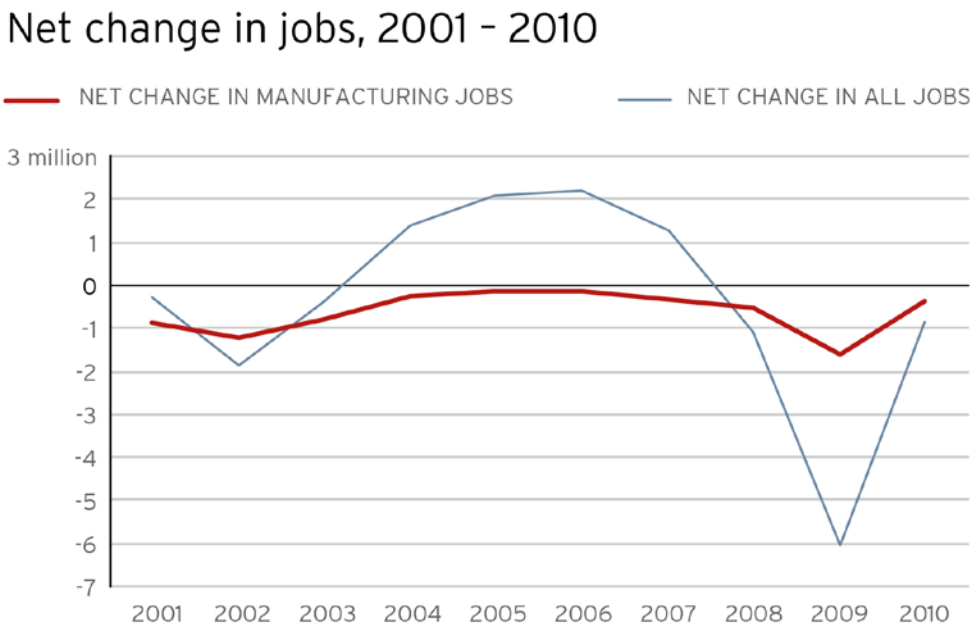
At Brookings' recent John White, Jr. Forum on Manufacturing, Rep. David Cicilline (D-RI) discussed his own efforts to save manufacturing with a "Six Point Manufacturing Plan for Rhode Island." Included in this proposal is the *Make it in America Block Grant Program* (H.R. 1912). This project is not (and is not heralded as) the magical elixir to rehabilitate this struggling sector of our economy, nor is it the only effort at a solution. Instead, it serves as starting point for a broader conversation to save manufacturing in Rhode Island and throughout the United States. While Cicilline's proposal shows great promise, I argue that there are politically feasible approaches to implementing these ideas that have, until now, largely remained unexplored. By modifying the policy proposal and working more directly with existing programs like the Hollings Manufacturing Extension Partnership, struggling manufacturers will see real relief from the prolonged economic hardship of the last decade.

The Problem: A Decade of Manufacturing Losses

Between 2001 and 2010, net job creation in the United States was abysmal. The manufacturing sector suffered staggering economic losses. Forty-nine states saw a net loss in manufacturing jobs, ranging from 1,390 jobs in Wyoming to 544,365 in California. In total, from 2001-2010, the US lost 4.9 million manufacturing jobs. However, in the aggregate, private sector employment shed "only" 3.3 million jobs, meaning negative job growth during the 2000s occurred wholly because of the tremendous loss in manufacturing. Excluding manufacturing, private sector employment grew by 1.6 million jobs.[1] While failures in the financial industry and the housing market drove the 2008-9 recession, the 2000s can be considered a manufacturing-driven jobs recession. As Figure 1 shows, in every year of the 2000s, the manufacturing sector lost jobs, even in the face of net job *gains* in the overall economy. In fact, in 2001 and 2003, manufacturing was singularly responsible for net job losses.

Figure 1:



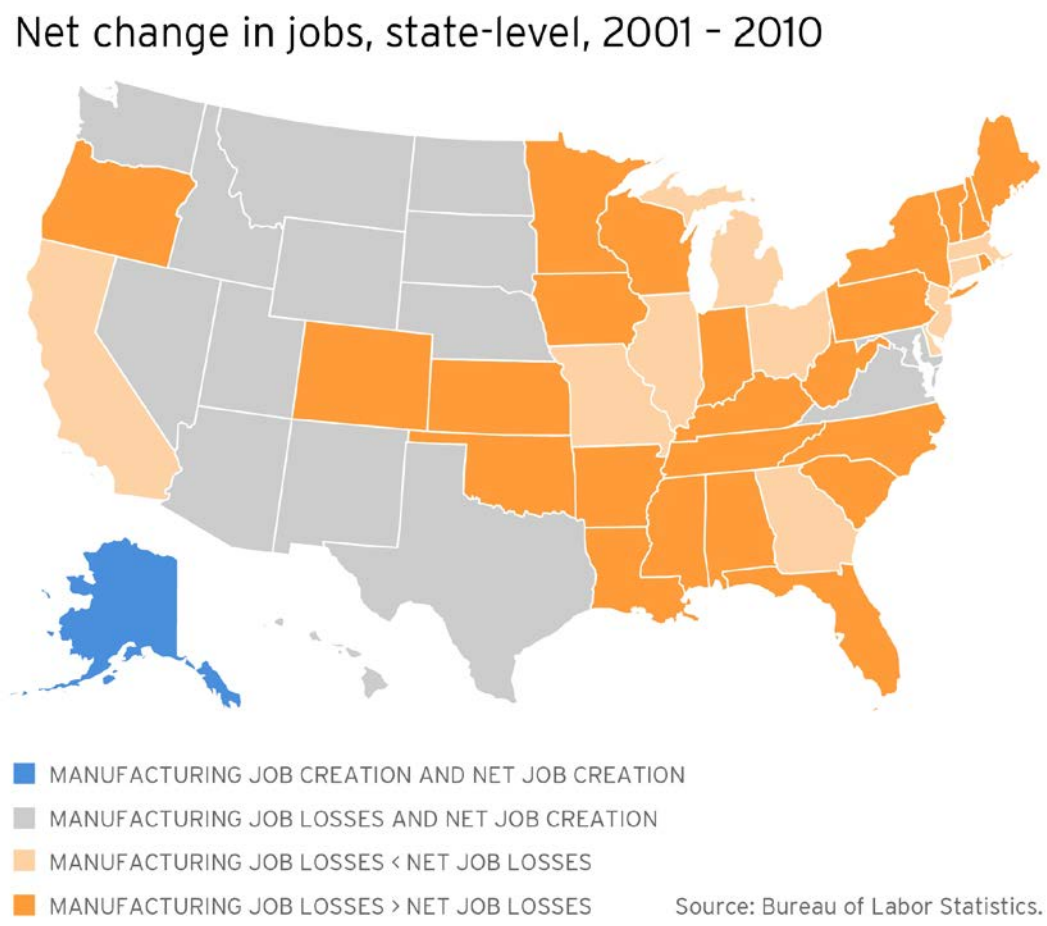
Source: Bureau of Labor Statistics. Numbers are not seasonally adjusted.

Fifteen states, including much of the Western half of the US, had net job creation but lost thousands of manufacturing jobs. In these states, manufacturing considerably suppressed a decade of positive job growth.

The force and impact of manufacturing job losses on employment at the national level are certainly striking. However, the labor market experience at the state level is even more alarming. The map in Figure 2 illustrates state-level job performance overall and in manufacturing specifically, from 2001-2010. As noted above, only one state—Alaska—saw net manufacturing job growth during the decade, adding 250 jobs in 10 years. The remaining states faced different fates. Fifteen states, including much of the Western half of the US, had net job creation but lost thousands of manufacturing jobs. In these states, manufacturing considerably suppressed a decade of positive job growth. For example, Texas created a net 567,000 jobs between 2001 and 2010, despite losing over 219,000 manufacturing jobs.

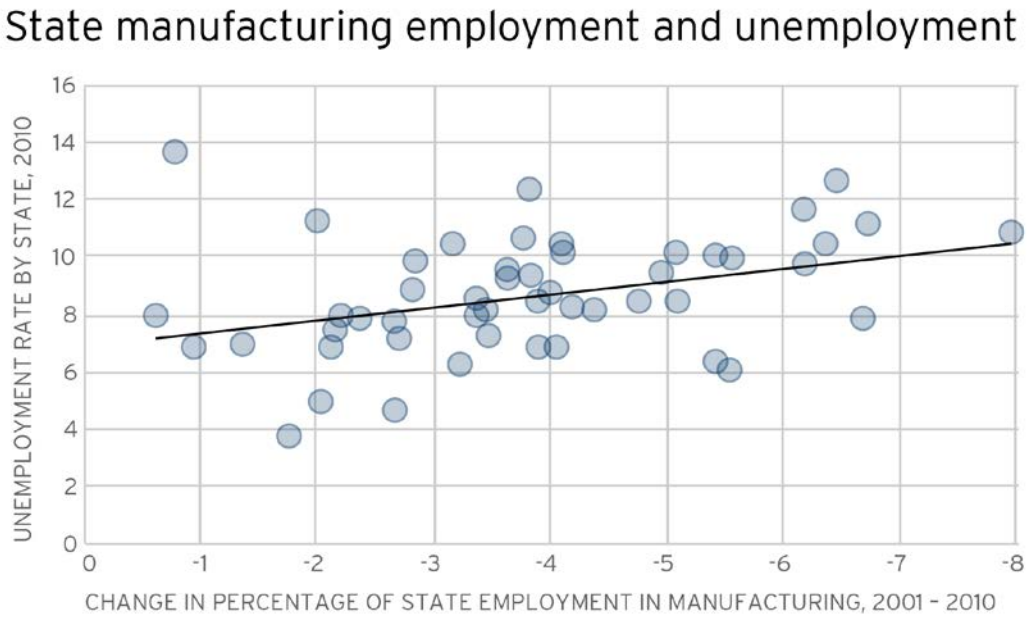
Texas' manufacturing experience pales in comparison to that of other states. Although 16 states had positive job growth during the decade, the remaining 34 netted job losses. In 24 of those states, the decline in manufacturing jobs accounted for more than all of the net job losses. For example, Tennessee during this time lost a net of 103,000 jobs and shed 155,000 in manufacturing. Outside of manufacturing, Tennessee had positive job growth, but the losses in this single sector hampered the state's economy.

Figure 2:



The sector of the economy that once drove American capitalism steadily reduced in size beginning in the 1970s. According to the Bureau of Labor Statistics, since 1990 many states have seen the size of their manufacturing employment halved.[2] The shrinking manufacturing sector did not simply represent a transitioning economy in which former blue collar workers retrained and re-entered the workforce in different sectors. Instead, the losses caused serious hardship for displaced workers. While some manufacturing workers surely shifted their employment, many were left behind, struggling to find work. Figure 3 shows the relationship between the decreasing size of the state employment base in manufacturing and the unemployment rate. The figure does not illustrate that manufacturing workers drove the ranks of unemployment (which may well be the case). Yet, the figure shows that in states where the size of the manufacturing labor base fell more sharply, the unemployment rate was higher in 2010. Regardless of the composition of unemployed masses, where the manufacturing sector shrank, labor markets suffered.

Figure 3:



Source: Bureau of Labor Statistics.

Losses in this sector have severe consequences for the nation; gains in this sector can still power the economy as it did in prior decades.

In addition to job losses throughout the 2000s, manufacturing played a central role in the 2008-2009 recession. The decade-long trend of manufacturing losses rapidly accelerated when the economy retracted. As Figure 4 shows, the manufacturing sector disproportionately contributed to the recession. In the late 2000s, this sector accounted for only 11-12% of GDP; however, manufacturing accounted for one-third of the loss in GDP between 2008 and 2009. In fact in 2007, immediately before the start of the financial crisis, manufacturing losses decreased economic *growth* by over 20%. These statistics show that changes (positive or negative) in the manufacturing sector often drive national economic performance in magnitudes larger than the size of that sector. As the economy began to recover in 2009-2010, manufacturing spurred growth, increasing GDP by 38%. Losses in this sector have severe consequences for the nation; gains in this sector can still power the economy as it did in prior decades.

Figure 4:

Manufacturing and the National Economy

Manufacturing Size in the Economy

	Gross Manufacturing Product (GMP)	Gross Domestic Product	GMP as a Percentage of GDP
2007	1698	14029	12.1%
2008	1629	14292	11.4%
2009	1540	13939	11.0%
2010	1701	14526	11.7%

The Impact of Manufacturing on the Economy

	GMP Change	GDP Change	Effect of Manufacturing on GDP Change*
2007-8	-69.5	263	-20.9%
2008-9	-88.3	-353	-33.4%
2009-10	161.7	587	38.0%

Note: All non-percentage values in Billions of Dollars. Source: Bureau of Economic Analysis. * Value is calculated as the impact that GMP had on GDP, calculated as (GMP change/[GDP change-GMP change]).

The result of the 2000s was economic hardship for many, but profound struggles and upheaval for manufacturing workers. During this time, political and business leaders were not blind to the problem. Outsourcing rose to issue prominence among legislators and major media outlets. The recession brought additional stories of factory closures and shrinking blue collar sectors. Despite this attention and some policy efforts at reversing the trend, manufacturing still suffered mightily. Well-intentioned efforts at policy solutions, at best, slowed the sector's bleeding. It did nothing to stitch or heal the wound.

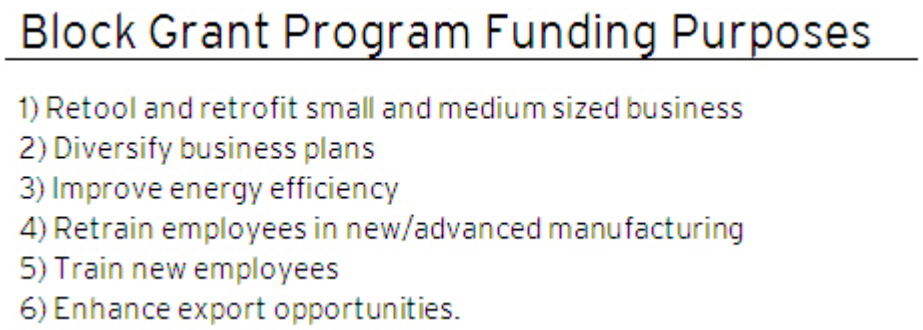
The Policy Proposal

Many Members of Congress acknowledge the problem manufacturing workers are facing and work tirelessly to restart that segment of the economy. For these members, the intersection of economic, political, historical, electoral, and often personal forces motivate them to work toward a solution. Rhode Island Congressman David Cicilline (D) is one such individual. He coauthored a plan that seeks to rebuild manufacturing. Many of its parts—a National Infrastructure Bank, a jobs bill, and currency reform legislation—have been well-publicized legislative proposals for some time. However, one part of the proposal—authored by Cicilline—is fairly unique, has received far less attention, and deserves

examination and analysis.

The *Make it in America Block Grant Program Act of 2011* seeks to deliver funds to state and local governments for the express purpose of helping manufacturers recover. The plan encourages manufacturing enterprises to use funds in six ways (see Figure 5 below) that can create or retain jobs, grow sales and revenue, drive down costs, and expand into additional domestic and international markets.

Figure 5:



One of the central goals of the plan is to boost manufacturing efficiency. By combining reductions in production and energy costs with expanded demand, companies can hire workers, become more profitable and have additional funds for capital and technological improvements. One issue facing manufacturing over the past decade is the struggle to make these necessary changes to compete. Because of reduced value, limited access to credit, and the wariness of investors to pump money into this sector, manufacturers have been unable to transform in ways that boost profitability.

The Block Grant Program seeks to overcome these structural limitations on manufacturers in ways that offer an immediate influx of needed, targeted, purposeful capital, and also expand future access to the same. To accomplish such goals and provide such benefits, the program delivers funds through a federated process to businesses that need and request assistance. Of course, a simple stream of federal funding does not necessarily solve a problem. However, Cicilline's Block Grant Program provides two key elements that make this proposal unique and likely more effective. First, by nature of the implementation of block grants, the program seeks to empower state and local governments and leaders to use federal funds to address specific issues at the local level. Although manufacturing job losses and recession are national problems, this proposal acknowledges that the solutions must be local. Although the purposes and uses of these funds fall into the six broad categories mentioned above, local governments and businesses have broad flexibility in the manner in which those funds are implemented. This freedom acknowledges that one model of progress does not fit every struggling manufacturing firm and that a diverse set of paths may lead to the broader

recovery. It also distributes support according to need in ways that level the playing field for a sector that has faced aggregate losses but diverse struggles at the state and local levels.

Second, the Block Grant Program calls for the development of local Make It In America Partnership Boards. The boards provide continued advice and support to local businesses using these grant funds. They function as a public-private partnership, bringing together government officials and local business leaders to help maximize the benefits of the program. This partnership helps disseminate ideas that can boost productivity, effectiveness, and efficiency, while capitalizing on the unique business environments at the local level. This approach (and the organization of these boards) is one often lost on federal policy makers. Individuals on the left and the right, advocates of increased spending or decreased taxes, often think blanket, national policies cure the ills of the nation. This program effectively promotes a policy structure that must be embraced on a larger scale. Businesses and communities often understand the unique nature of their own needs better than anyone. They have excellent ideas to deal with their own issues. The problem, of course, is that the (financial) ability to put these ideas into action is often out of reach.

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Despite the ambition and foresight these boards embody, this plan can go further to achieve greater manufacturing recovery.[3] The boards are intended to be staffed by government officials as well as successful business leaders in the community. These boards have a real opportunity to coordinate local capital opportunities for manufacturing investment. To be fair, H.R. 1912 does encourage these Boards to "improve resource allocation, including through the identification of…opportunities to leverage public and private funding" (Section 4.A). However, these state and local boards *must* be encouraged, through stronger legislative language, clearer program design, and specific administrative guidance to be clearinghouses for capital development and expansion. The sponsor and cosponsors must work closely with business leaders to design this program in ways that maximize private capital opportunities. Regardless of the intent of this bill, as written it emphasizes the allocation of federal grants and undersells the opportunities to coordinate and stimulate local capital markets. The program not only has a real chance of making business leaders aware of corporate models that need change or companies that need assistance. It can facilitate private investment in manufacturing in ways that have been lacking in recent history and ultimately have broad-based benefits.

The intended benefits of this program are plentiful. It will create jobs, increase manufacturing productivity in ways that have a stimulative effect on the local economy, increase revenue, increase the purchase of capital equipment, and broaden the tax based at all levels of government. However, greater policy attention must be placed on the ability of the program to change minds, behaviors, and incentives in state and local capital markets. Private sector cooperation spurred from the public grant program can be long lasting; economically beneficial

to the local, state and national economies; and ultimately, can resolve problems in manufacturing without the use of tax dollars. It is certain government will not singlehandedly solve the blue collar crisis. However, it can grease the wheels among the many economic forces that will help. Essentially, manufacturers in the United States need the faith of its government, its people, and its business community that it can succeed once again. This program is a step in that direction.

The Politics

However, in states where Republicans struggle to connect with (capture votes from) manufacturing workers, supporting effective recovery programs may prove to be an opportunity to make inroads into this constituency.

Manufacturing faces serious struggles, and Congressman Cicilline's proposal is a powerful idea. However, the bill hopper in the US House of Representatives is filled with powerful ideas, many of which die in committee. In fact, this bill has been dormant in committee for over a year. One challenge this bill faces involves the politics of federal spending in the current legislative environment.

Concerns over additional spending are well founded in the face of budget deficits, sequestration, a monumental tax debate, and debt ceiling negotiations. However, the losses in the manufacturing sector have had serious consequences for GDP and spending on unemployment benefits and health care. For example, the Bureau of Economic Analysis reports that in 2009, manufacturing contributed over $150 billion less to GDP than it did in 2007.[4] According to the Bureau of Labor Statistics, in June 2011, 1.4 million manufacturing workers were unemployed. While certainly not all workers were collecting unemployment insurance, the costs in government dollars for those who did have been staggering. Arguments that government spending is excessive are without doubt. However, federal *inaction* can have costly effects for individuals, companies and government revenues/deficits, as well.

Despite the broader effects that manufacturing job losses and recession pose for the national economy, Republicans in Congress are loathe to expand federal funding for most purposes. A major concern is that preferences among conservative constituents call for budget cutting, not expansion. However, the politics of this Block Grant Program can have real appeal for the GOP. First, while spending is part of this program, most administrative control rests in the hands of state and local governments and the businesses themselves. The program encourages businesses to use funds in ways that work for them and come with relatively few federal restrictions regarding the proper use of dollars.[5] Moreover, the program actively builds partnership and cooperation among private sector businesses at the local level in ways that can effectively facilitate commerce.

Beyond the details of implementation that can appeal to the ideological leanings of Democrats and Republicans alike, there are real positive electoral implications for Republicans who are willing to support the Block Grant Program. A recent poll conducted by the American Alliance for Manufacturing shows that 53% of voters believe manufacturing to be "most important to the overall strength of the American economy."[6] Additionally, millions of manufacturing employees

live in states with conservative voting populations. Of course, that is not to say that manufacturing workers are going to vote Republican by virtue of living in a state that elected Republican Senators and/or a governor or cast its electoral votes for the GOP nominee for president.[7] However, in states where Republicans struggle to connect with (capture votes from) manufacturing workers, supporting effective recovery programs may prove to be an opportunity to make inroads into this constituency. As Figure 6 below demonstrates, manufacturers compose substantial constituencies in states that vote for Republican candidates statewide. The realized gains from manufacturing recovery programs will substantially benefit these local economies, and stronger economic performance often means greater electoral success for incumbents up and down ballots.

Figure 6:

Manufacturing Employment in Republican States, May 2012

	Manufacturing Workers (Millions)	Percent of National Manufacturing Base
States with 2 GOP Sens.	3.502	29.4%
States with a GOP Gov.	6.896	57.9%
2008 McCain States	3.502	29.4%
2004 Bush States	3.502	52.9%

Source: Bureau of Labor Statistics

Despite the ideological and electoral benefits the manufacturing Block Grant Program would provide to political leaders, particularly in the Republican Party, there remain challenges facing passage. In the current legislative environment, there exist alternatives or modifications to this proposal that may be prove to be a more successful path to passage. One change that may make the program more appealing to legislators involves altering the funding platform. As the proposal stands, it uses federal grant dollars to spur manufacturing transformation and growth. A program that uses low interest federal loans may be an alternative that can gather support. Surely, loans would be less appealing to struggling businesses than would grant funds. However, some manufacturers may welcome access to capital that is currently unavailable because of financial market forces. The funds can be targeted to the same business practices, but with funds that will eventually be returned to the Treasury. Similar Partnership Boards can be constructed to help coordinate business activity at the local level in ways that add value to the program and benefit manufacturers.

The transfer to a loan program would surely limit businesses' access to these federal funds and likely manipulate the program in ways that the original sponsor did not intend. However, if given a choice between no assistance for

manufacturing or a loan program, legislators would be foolish not to move forward with this alternative. Something must be done to aid this struggling sector, and the status quo—inaction or limited action—is untenable and has serious consequences for the economic health of the nation.[8]

Another policy alternative that administrations too infrequently utilize is policy experimentation. Every Cabinet secretary is allocated a portion of their budget that is truly discretionary in order to advance certain policy initiatives that are deemed important. Yet, these funds can be used for other purposes, too. Frustration with Congressional inaction can be ameliorated by using these funds to pilot certain programs at a small scale in order to assess their effectiveness. It is easier to convince Congress to fund a program when it has proven to be effective.

Piloting a program like Cicilline's would be a means to analyze the effectiveness of the idea in an applied setting.[9] In fact, structuring this pilot should be a smooth process, as a federal program already exists that has similar goals and seeks a somewhat similar path to accomplishing those goals. Understanding this program and its relationship to the Make It In America Block Grant Program provides an effective middle ground to enact policy that may provide additional help to manufacturers.

The Productive Pilot?

The National Institute for Standards and Technology's (NIST) Hollings Manufacturing Extension Partnership (MEP) seeks to transform manufacturers' business practices in ways that boost efficiency and productivity. MEP achieves this in a unique way. They "offer its clients a wealth of unique and effective resources…Clients negotiate a fee based on their company's resources and expected benefits from participating in the program."[10] Essentially, MEP functions as a public-private consulting firm that helps businesses design plans to increase competitiveness and locate the capital necessary to make those changes. It achieves these goals by maintaining partnership offices at the state level.

Overall, MEP has been an incredibly effective program, operating on a relatively meager appropriation ($100-$130 million annually).[11] By their measure, every federal dollar spent generates $30 in additional private sector revenue. Every $2,000 that MEP spends creates or retains a manufacturing job.[12] In fact, a 2011 MEP report explained their efforts in FY2010 generated $3.6 billion in new sales, creating 19,170 jobs.[13] These achievements grow local, state, and the national economies; broaden tax bases; and assist manufacturing families who have suffered over the course of a difficult decade.

From the perspective of institutional design and function, the MEP and the Cicilline plan are not far separated. The former uses state- and local-level units to attract capital and advise businesses on how to transform. Through boards at the state and local levels, the latter aids manufacturers who may need additional, direct funding to implement plans necessary for recovery. Essentially, the Cicilline

plan would enhance the resources already available to companies under MEP. As a result, MEP provides an ideal setting to pilot the Block Grant Program.[14]

The Office of the Secretary of Commerce working closely with MEP should pilot the program by choosing 3-5 geographically and economically diverse sites (states) in which MEP can utilize Block Grant-style funding to supplement their current approach. Basic access to the program can remain generally intact. Businesses that can afford to pay fees for advice will do so according to ability to pay and expected benefits. However, for businesses that are truly struggling, federal grant dollars would be available to work with local Partnerships and make the necessary changes. Additionally, in areas where access to local capital is entirely insufficient, federal funds can bridge the gap. By piloting the Cicilline plan within the existing structures in MEP, investment opportunities will grow and a key weakness in the design of the Block Grant Program will be overcome. The results in pilot states can then be compared to states with MEP locations but without grant funding in order to assess the effectiveness and impact of the program.

... [T]his politically feasible policy proposal can help struggling manufacturers get workers back to the machines, retrain them in new and efficient technology and spur business plans that are more suited to current market demand and capital supply.

The path to legislative success will be easier if the program is marketed as an *expansion* of an existing, effective program with evidence of proven economic benefits. Rather than a minority party congressman pushing legislation that creates a new, unproven program, the process can begin with the appropriations mark for the Department of Commerce—a more feasible pathway. In addition, the combination of MEP and a Block Grant Program delivers distributive benefits with multiplier effects, allowing elected officials to claim credit for delivering funds and improving the local economy. The benefits will ease the task of rounding up votes to support such funding. Ultimately, this politically feasible policy proposal can help struggling manufacturers get workers back to the machines, retrain them in new and efficient technology and spur business plans that are more suited to current market demand and capital supply.

In sum, David Cicilline's idea for the creation of a manufacturing-centered Block Grant Program is solid and deserves greater attention from political and policy communities. At the same time, there are politically viable alternatives that can be implemented in the short term that offer this proposal a chance at helping manufacturers. Ultimately the goal of this and many other proposals is to create jobs, grow economies, and spur private sector activity. I have outlined ways in which the Congressman can work closely with the Department of Commerce to try to get results. The manufacturing sector needs help, and innovative policy solutions may be the only option in a contentious and partisan political environment. Beyond this issue area, creative thinking that brings together new ideas from Congress and discretionary authority in the Administration can help tackle some of our nation's most pressing problems. When traditional means of progress fail, policy makers too often ignore alternative avenues to help Americans in need. Lauding legislators for their ideas is important; helping them achieve results is an obligation.

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Endnotes

[1] Although the creation of 1.6 million jobs over a 10 year period is surely not the sign of a healthy economy. The decade would have been economically sluggish without the effect of manufacturing—not lost.

[2] In some states, manufacturing accounted for as much as 25% of the state employment base in 1990, meaning this drop in employment translates into dramatic job losses.

[3] I note this recommendation and space for policy expansion as lacking in the language of H.R. 1912.

[4] Constant dollars.

[5] With this freedom, however, comes reporting requirements and other oversight procedures to guard against waste, fraud, and abuse.

[6] American Alliance for Manufacturing. *State of Manufacturing 2012* national poll. Results can be found at http://americanmanufacturing.org/blog/key-facts-new-national-poll-what-are-voters-key-concerns-heading-fall-presidential-election

[7] This caveat is even more the case in states where unions dominate the manufacturing sector.

[8] Throughout this piece, I speak in terms of effects specific to the manufacturing sector. However, as many analysts and organizations note, many other sectors depend on a healthy manufacturing industry. The National Association of Manufacturers notes that while approximately 12 million Americans are directly employed in manufacturing, the sector supports 17 million jobs (hyperlink this: http://www.nam.org/Statistics-And-Data/Facts-About-Manufacturing/~/media/0F91A0FBEA1847D087E719EAAB4D4AD8.ashx). In a 2009 report entitled, *How Infrastructure Investments Support the US Economy*, the Alliance for American Manufacturing notes that investments in manufacturing have broader benefits to other areas of the economy in terms of job creation and revenue generation.

[9] To be clear, what Cicilline envisions is a program in which federal funds are spent in some amount and those dollars become economically effective in that they generate private revenue (and perhaps additional tax revenue) in ways that help offset government spending. Assessing "effectiveness" in this context would prove fairly easy.

[10] http://www.commerce.gov/blog/2011/05/06/nist%E2%80%99s-manufacturing-extension-partnership-delivers-results

[11] Source: Office of Management and Budget.

[12] http://www.nist.gov/mep/about.cfm

[13] http://www.nist.gov/mep/upload/MEP-PARTNERING-IMPACTS-2011-v6.pdf

[14] To be clear, the MEP currently directs businesses to grant opportunities that currently exist at the state and federal level. While MEP seeks sources of private capital, it also assists in locating government support. However, this construct requires a company interact with multiple bureaucracies in order to be identified for need and then apply for resources. This pilot offers MEP

access to direct pools of funding to reduce bureaucratic excess and provides manufacturing-specific funds not found in other programs such as NIST's Technology Innovation Program (TIP) and the Small Business Administration's Small Business Technology Transfer Program (STTR) that must balance funding across multiple sectors.