

DECENT JOBS FORUM

A SERIES OF THE NEXT SOCIAL CONTRACT INITIATIVE

# INDUSTRIAL POLICY

## Bring It On

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Amidst the doom and gloom surrounding the labor market, there are bright spots that offer some hope for the return of good jobs in the United States. Foremost among them is the resurgence of employment in durable goods manufacturing.<sup>1</sup>

As reporters for the *Columbus Dispatch* tell us, the Hoover Vacuum plant in North Canton, Ohio is hiring; V and M Steel in Youngstown is looking for workers for its pipe fabricating plant.<sup>2</sup> Unemployment in the rust belt states of Michigan<sup>3</sup> and Indiana<sup>4</sup>, while still unacceptably high, is trending down for the first time in years. 250,000 jobs have come back to the nation's factories, the first real increase in manufacturing employment in almost 15 years.<sup>5</sup> Against nearly all expectations – and the resolute antagonism of conservatives toward government intervention – the auto factories have come to life once again and have repaid taxpayers for the loans they received.

Yet we should not look for the return of your father's Chrysler. Manufacturing is more capital-intensive, more productive (more output with less labor) and rests on the shoulders of a more "polarized" work force, with highly skilled managerial and technical workers that are well paid and a low skilled blue collar workforce that is now working for far less than it ever has. Jobs that once paid \$20 an hour were outsourced south of the border; they are returning to the industrial heartland now, but the thrill is gone if workers are looking for the kind of living wage that once graced the Midwest. Assembly-line workers making EdenPure space heaters for Hoover start at \$7.50 an hour.<sup>6</sup> Nowadays, many blue collar workers are faced with the grim choice of a low wage job or no job at all.

The destruction of the union movement, following waves of outsourcing and offshore migration has not helped matters. Their numbers grew so weak that they have been unable to hold the fort. Consequently, the resurgence of manufacturing in the US holds little prospect for the return of the "labor aristocracy," at least not among line workers.

If this were the universal experience of manufacturing around the world, we might conclude reluctantly that "making stuff" simply will not help to bring good jobs back to America. Yet when we cast an eye toward Germany, the giant of European

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manufacturing, we discover that it is entirely possible to maintain a high wage industrial workforce. It may take a village to raise a child, but it takes an industrial policy to sustain good jobs in the factory system of the 21<sup>st</sup> century.

Even in the midst of the worse bout of unemployment since the dark days of the Depression, Germany's unemployment rate has been dropping, from 8.6% in 2007 to 6.9% in 2010, according to the OECD.<sup>7</sup> Its export trade, composed mainly of machinery and heavy equipment, is headed for the high growth countries like India and China, where rapid industrialization is creating a steady appetite for specialized machinery that German firms are good at producing. 9/10 of all German exports are industrial products.

Workers in the Gutenhoffnungshutte Radsatz, which makes wheels and axles for rail vehicles, are working three shifts, and the firm has increased the workforce by more than 25%. Bauer AG, which manufactures specialty construction machinery near Munich, has been adding hundreds of employees to keep up with the orders pouring in.<sup>8</sup> This good fortune is not restricted to West Germany, long an economic powerhouse. Even the eastern sector, which cratered after reunification, is experiencing resurgence: manufacturing is growing twice as fast in the region as it is in the west.

## Partners in Growth

Why is Germany able to do this when the US, which had the lead in so many of these fields for so long, has had trouble turning the same corner? The answers are not simple, but they start with an industrial policy that favors high end manufacturing and the high skilled, well trained labor force that goes with it. The country invests heavily in tertiary education in general and industrial apprenticeships in particular. Banks provide ready capital for the expansion of export industries and the country's elites re-invest the returns into precision manufacturing.<sup>9</sup> Instead of railing about unions and working overtime to drive them out of business, the Germans have perfected the corporatist model of industrial bargaining. Whatever their differences, German unions (and hence workers) are partners in growth.

We cannot attribute these happy outcomes to something in the German water supply. As Michael Schulman<sup>10</sup> has pointed out, service workers in Germany are looking at shrinking pay packets. But in manufacturing, wages are rising and some firms, like Gutehoffnungshutte Radsatz, are forking over a share of firm profits to the line workers. The American romance with the unregulated market is no match for the German approach, which aligns the interests of firms and high skilled workers, invests in education to produce the labor force that is taking the country to the top, and knows how to target markets that are growing, especially the industrializing, developing world.

How could the United States jump on this bandwagon? For starters, we have to ask what is wrong with our human capital factories. When it comes to higher education in the US, which is the envy of many countries, there is little wrong with the system save how people pay for it. American families are facing sticker shock that is bound to create either high levels of inequality in who goes to college or force the bursting of a tuition bubble when the borrowing power of households is simply no longer up to the task. And we are pretty close to that point now, especially since the Great Recession got its start destroying the housing market. The great borrowing machine that fuels access to private higher education – which depended heavily on borrowing against housing equity – is creaking, sending a cascade of students to lower-cost public universities and state colleges that are so over-stuffed they are forced to slam the door on thousands who want to attend. We face the need to re-invent the financial models that undergird American higher education which will be critical to producing a competitive labor force for the future, especially at the high skilled end.

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## Once Upon a Time in America

What about the nation's high schools? We are in big trouble. Once upon a time, the United States had a superb system of vocational education which was on par in many respects with the German model. The remnants of it are still visible in places like Aviation High School or Automotive High School, both in New York City.<sup>11</sup> They represent the high end of vocational education and its characteristics are clear: industry-trained teachers with high expectations of their students; motivated students, including many from the city's poorest neighborhoods, who commute hours every day to escape violence-torn general high schools, in favor of demanding instructors who are turning out serious mechanics. Close relationships among employers and instructors help to insure that the graduates of these very serious vocational schools are readily employed. And even those who decide that working for the airlines is not their destiny of choice have had such a good experience with education in general that they go on for more. Indeed, many of the "young" people I have interviewed who graduated from these schools in the late 90s, went on to college and became lawyers or engineers because their experience of education in general was far superior to what we typically offer poor kids in the nation's ghettos.

Sadly, this model of elite vocational education has gone the way of the dinosaurs in the United States. Much of what passes for industrial training at the high school level is lame or worse. Students are asked to pass a computer mouse around or learn how to do the basics of word processing. While some of the for-profit vocational colleges provide good training, the sector is under-regulated and millions of Americans desperate for a glide path into the labor market are instead drowning in debt to colleges that have ripped them off and left them with little in the way of useful skills. Neither of these models will cut it against the demanding training absorbed by our German counterparts.

Our best bet lies in the community colleges, the real engines of vocational training, that is are currently starving because the states are cutting their budgets. This bottleneck is especially unfortunate for the millions of unemployed workers in who need to return to school to jump start new careers and look to the community colleges as their salvation. Sadly, there is no room at that Inn at precisely the time when it is most sorely needed. We will have to retool our educational system and the funding we provide it if we are going to compete in a global market. And besting that competition is key to bringing good jobs home.

## The Good News and the Bad News

So the good news is that manufacturing is coming back.<sup>12</sup> We are making stuff again. The bad news is that we haven't learned very much about how to insure that the stuff we make supports high wage jobs. The unions are no longer strong enough to insure that modestly skilled workers have a fighting chance, and our laissez-faire approach cannot win against an industrial policy that supports smart manufacturing, aimed at the growth industries of third world nations that need what a country like Germany produces.

This is not rocket science. Well, maybe it is, but it's not about rockets. It's about the science or alchemy of joining human capital training to growth industries that can compete well enough to insure high wages. We don't have to invent the elements of this system: we had them in the past, the Germans have them now. We just have to get back to the basics of industrial policy, including the rebuilding of our own labor unions so that the good fortune of American firms is shared with the work force that is the bedrock of American prosperity.

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<sup>1</sup> Bureau of Labor Statistics. 2011. Employment Situation Summary. June 3, 2011. Available Online.

<http://www.bls.gov/news.release/empstat.nro.htm>

<sup>2</sup> Michael Fletcher. 2011. “After years of decline, manufacturing jobs are increasing across the Midwest – though pay isn’t great.” *Columbus Dispatch*. May 21. Available Online. <http://www.dispatch.com/live/content/business/stories/2011/05/21/knocking-off-rust.html>

<sup>3</sup> Bureau of Labor Statistics. Available Online. <http://data.bls.gov/timeseries/LASST26000003>

<sup>4</sup> Bureau of Labor Statistics. Available Online. <http://data.bls.gov/timeseries/LASST18000003>

<sup>5</sup> *Ibid.*

<sup>6</sup> *Ibid.*

<sup>7</sup> Michael Schulman. “Does Germany know the secret to creating jobs?” 2011. Available Online.

<http://curiouscapitalist.blogs.time.com/2011/02/25/does-germany-know-the-secrets-to-creating-jobs>.

<sup>8</sup> *Ibid.*

<sup>9</sup> *Ibid.*

<sup>10</sup> *Ibid.*

<sup>11</sup> Mary Brinton and Katherine Newman. In preparation. Learning to Labor in the New Working Class.

<sup>12</sup> I have focused here on precision manufacturing and high road training because this has been the epicenter of high wage jobs for millions of Americans since World War II. To be fair, though, there is nothing inherently beneficial about manufacturing (Steven Attewell, personal communication). Factory jobs were the McJobs of the early 1900s, populated by immigrants with no clout, native born low skilled workers, Black and white. It was the union movement and the industrial policy born of the world wars that transformed American manufacturing into the powerhouse that it was and could become again. If service jobs were unionized, who is to say that the people who care for our elderly and our children could not become well paid workers, recognized for the contributions they make in the same way that, say, teachers in Japan are now. “Good jobs” are not necessarily a priori. They follow from the way we value what we produce and who we pay to do it.



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