

MSCI Town Hall Meeting and Manufacturing Activity

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NOTE: The views expressed are the author's personal opinions and do not necessarily reflect the opinions of Independence Tube Corp.

As part of a belated surge of interest from the manufacturing sector in this country, the MSCI (Metals Service Center Institute) sponsored a Town Hall Meeting on Manufacturing, on August 21, 2003. Following is a brief synopsis on that meeting, attended by the author, and further followed by additional commentary and reporting.

The MSCI Town Hall Meeting was held in Oakbrook, Illinois and was attended by about 350 people, including representation from seven political offices, state and federal. The basic format of the meeting was initial presentations by each of the four panelists, followed by Q&A and commentary from the audience. The audience makeup was primarily service center management, mill representatives and trade association executives. Each of the panelists presented their take on the root cause of the exodus of manufacturing base from the United States in our current economy.

Don McNeeley, PhD., president and CEO of Chicago Tube and Iron is an economist who believes that free trade is no longer fair trade. Developing countries are able to export their unemployment problems by adopting policies and practices that give them competitive advantages in world markets. Manufacturing has been the basis of our economy for a long time. Originally, the U.S. economy was farm based. This evolved to a manufacturing economy that grew to the point where only 5% of the world population (USA) was supplying 25% of the world output. In recent years, this smoke stack economy has declined and evolved into a retail/service economy, with 2/3 of our current GDP centered in this service sector. With imports growing faster than exports, it appears as though our efforts to retain manufacturing opportunities may be a bit late.

William Hickey, president of Lapham-Hickey Steel, was the second panelist to speak. He blames exchange rates for manufacturing blight. His involvement with the Coalition for a Sound Dollar is the focus of his efforts. Currency manipulation by China and other Pacific Rim countries has made products manufactured in those countries up to 65% cheaper than U.S. made goods. The Chinese Yuan (currency) is about 40% undervalued, by some estimates, and is manipulated by the Chinese Government, who can artificially set the relative valuation to the U.S. Dollar. This makes their goods and services extremely attractive (price wise) to our consumers. Unfortunately, it beats the heck out of our ability to manufacture goods in this country and sell them at a profit. According to Mr. Hickey, we are engaged in economic warfare.

Dave Lerman, chairman and CEO of Steel Warehouse Company was the third speaker. He basically cited several cases of his customers losing their manufacturing companies to offshore competition. The basis of the cost differential according to him is the indirect costs, such as pensions, health care, taxes, subsidies and liability insurances. While the U.S. productivity, shipping costs, and raw materials are all better and cheaper than the Chinese, they have such a huge advantage on indirect costs that we cannot compete.

The final panelist, John Licht is chairman and CEO of Duraco Products (plastics manufacturer). His once thriving 1200 employee business is now down to 300 employees and declining. He blames unfair foreign competition. Licht's basic message was one of pleading with the manufacturing community to build support in Congress and make the manufacturing plight a campaign issue. He urged people to support the very few politicians who work in Congress for manufacturing objectives.

During the Q&A session, plenty of China bashing was evident. Mr. Hickey's call to ban all Chinese imports until such time as China reevaluates its currency was met with a round of applause. He also managed to point out successfully that one of our own Senators (Durbin) would not even respond to the invitation to the Town Hall Meeting.

The MSCI intends to hold a series of Town Hall Meetings on Manufacturing in various regions of the country. The idea is to arouse support which will translate into political actions which favor the manufacturing industries.

Follow up and Commentary (Opinion):

In my opening statement, I noted that this surge of interest was a bit belated. In the past 4 years, over 2.7 million manufacturing jobs have been eliminated in the U.S. Today, only 13% of working citizens in this country are employed in manufacturing. This recent surge of interest seems to have been championed by the NAM (National Association of Manufacturers). Where have they been before now? Their white paper, "Securing America's Future: The Case for a Strong Manufacturing Base" was issued this June and has had an intended impact. It astutely points out the benefits to our economy provided by manufacturing and the negative impact of its loss. But it seems that the horses have left the barn, and Washington is not interested in trying to round them up.

As for the undervalued Chinese Yuan; perhaps we need to look a little deeper. Yes, it seems to be a rally cry for the N.A.M. and all of the Democratic Presidential Candidates, but we need to look beyond the quick fix. This is a very complex issue and a simple revaluation is not the answer. For example, China is overly dependent on foreign investment. The Chinese themselves won't invest because they are hoarding Yuan, anxiously awaiting this big revaluation and a windfall profit. Companies that export to the U.S. are flocking to China, investing in efficient plants

with cheap labor and further exacerbating this condition by allowing Chinese companies to further hold their own capital. If the capital controls were lifted, trillions of Yuan in Chinese savings would go abroad in search of higher returns, devaluing the Yuan even further. Revaluation is not the answer. Also, keep in mind that U.S. owned companies like Nike, based in Portland, Oregon, depend on Chinese labor to make their products (and profits). If it were not for the ability to produce high labor content products like sneakers in cheap labor markets like China, they could not compete in a worldwide marketplace.

So where do we go from here? It's obvious that China and other such countries don't play by the same rules. There are no wage rules, safety rules, air pollution rules or fair trade rules that are universal. We can't just restrict imports, or we will cut off our own noses. It is not likely that currency regulation will happen or help. Should we just fold up shop now in anticipation of being driven from business?

Our country has been in existence for 228 years and we have seen other major economic upheavals (corn to smokestacks). We are now in the midst of another change, and just as farming is still a major industry, so too will manufacturing continue to exist as a major industry. However, it is not going to be as big as it once was, and it is not for the weak.

Believe it or not, we have advantages. Some advantages that we forget to use. The Chinese have high-energy costs, high shipping costs and terrible logistics. They have no clue how to "market" in our society. In the U.S., to industries that have continued to make major productivity gains (much like the farming industry), labor is not an overwhelmingly big factor.

However, we still have a large group of manufacturers in this country that have not invested in their plants, do not have double digit productivity improvements and do not use good business practices. Operating at efficiencies experienced during the 1950's and paying top dollar union wages will not win a trade war. For companies like this, crying for protectionism is their only hope.

I don't mean to make light of the trade situation or explain it away. This is an extremely complex issue and I think it was oversimplified at the Town Hall Meeting. Manufacturing techniques, investment barriers, lawsuits, energy costs, innovation, international trade laws, WTO, pension reform, tax relief, monetary policies, health care costs, regulatory burden. These are just a few of the factors that are all inter-related and adding to the manufacturing "crisis". A lot of companies have been crushed by the burdens, but many survive.

For those of us who intend to continue to thrive, we cannot count on government protection. We need to be smarter. This is where membership in educational associations like the TPA becomes valuable. Improving our industry is our responsibility, not Washington's. Staying on top of the latest technology and methodology is not just a profit enhancer or a luxury; it's survival!