WRITTEN TESTIMONY OF LEO HINDERY, JR. TO THE SENATE BANKING SUBCOMMITTEE ON ECONOMIC POLICY HEARING ON "THE U.S. AS A GLOBAL COMPETITOR: WHAT ARE THE ELEMENTS OF A NATIONAL MANUFACTURING STRATEGY?"

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Mr. Chairman, other Subcommittee members, I am Leo Hindery and I am Chairman of the Smart Globalization Initiative at the New America Foundation, where I spend my time on jobs and trade issues. Occupationally, I am an investor in media companies, and I was formerly CEO of AT&T Broadband and its predecessors, Tele-Communications and Liberty Media. It is an honor for me to appear before you.

I want to discuss our largely jobless economic recovery and desperate need for an all-of-government national manufacturing & industrial policy.

President Obama has recently reaffirmed the administration's belief that the economic stimulus plan passed by Congress in February will "save or create" 3.5 million jobs over two years. There's obviously a huge difference between a job that's saved and one that's created – the Labor Department does not even collect data on "jobs saved", nor does anyone else – but much more important, 3.5 million jobs represent only a quarter of the 13.3 million jobs effectively lost since the recession began in December 2007 and just 12% of the more than 30 million workers already effectively unemployed.

I would offer that it is important that Congress always consider in its deliberations the millions of unemployed workers not included each month in the BLS's determination of the officially unemployed, specifically those workers who are either part-time of necessity, marginally attached, or in the "labor force reserve" because they have quit the labor force out of frustration. In the past, the number of "uncounted" unemployed almost never exceeded a third or so of those who were officially counted, albeit still a very large number. However, right now, there are actually *800,000 more* uncounted unemployed workers than counted ones, making the total number of effectively unemployed workers an unprecedented 30.2 million instead of the official 14.7 million and the effective unemployment rate 18.7% instead of 9.5%. And yet as numbing as these numbers are, I believe we are going to see additional significant net job losses for at least another 18 months.

We are already deep into a jobless recovery, and in the process we are headed toward an economic base so weakened that it will be incapable of sustaining a vibrant middle class. There is also the reality that this jobless recovery will be particularly susceptible to a new downturn because of the way it is already feeding back on itself, actually worsening in some cases the circumstances that originally triggered it. Finally, a jobless recovery means there will be little or no relief for state and local governments whose budgets have been hard hit by falling tax revenues.

When nearly 19% of workers are already effectively unemployed and while even the nation's current *full-time* workers are working only 33.1 hours a week – the fewest hours on record since the BLS began counting in 1964 – and seeing their wages reduced at an average 6.2% annual rate, significant and timely job retention and creation must be an urgent priority, on a par with health care reform. Right now, neither initiative can take a back seat to the other, as both are integral to true economic recovery.

And the reason this particular hearing is so important is because the massive job-creation deficit we face really tells only the *macro* side of our sad employment story. We need to be just as worried about the fact that our economy is mostly hemorrhaging jobs in the very sector – *manufacturing* – that must grow in order for us to move permanently away from debt-financed consumption as the principal engine of economic growth.

Since the recession began, manufacturing has lost 13% of its workforce; manufacturing industries now represent just 11.7% of GDP, after being 15.5% as recently as 1996 and much higher earlier; people working in manufacturing now account for only 8.7% of the jobs in the country; a quarter of the nation's 282,000 remaining manufacturing companies – 90,000 in all – are now deemed severely "at risk"; and we have run an average trade deficit in manufactured goods of more than $500 billion over the past five years.

Yet despite 30 years or so of extreme neglect, our now depleted manufacturing sector still accounts for a critical 60% of all exports from the US and for 70% of the nation's entire R&D.

However, aside from its emergency restructuring of Chrysler and GM, the administration has not developed an all-of-government national manufacturing & industrial policy designed to simultaneously ensure the competitiveness of US-based businesses and grow high-value jobs in America.

Congress and the administration, working together, need to immediately enact such a policy, one that puts American workers first and is comparable to the policies of our major trading partners. We also need to integrate this policy with efforts to be the world's dominant manufacturer of green technologies and components, and I applaud you, Senator Brown, and your former colleagues in the House, Congressmen John Boccieri and Zack Space, for sponsoring the "Investments for Manufacturing Progress and Clean Technology" or IMPACT Act.

The need for an elaborate American industrial policy was first widely observed as far back as the early 1980s, and by 1993 some in the Clinton administration and especially some enlightened members of Congress tried to enact such a policy. Regrettably they failed, and now 16 years later, we sit here in 2009 still without one.

Even if some in leadership today don't understand and accept this basic imperative, America's main trade competitors certainly do. All of the other members of the G-20 have such policies, and they are using them today to great effect to resuscitate their broken economies and further weaken ours. Germany, Japan and South Korea especially are doing everything possible to preserve their manufacturing bases, while China, which consistently accounts for 60% of the US trade deficit in manufactured goods, is aggressively accelerating its efforts to grow its manufacturing sector.

To this latter point, while the US was *losing* 1.4 million manufacturing jobs from 2002 to 2006, manufacturing employment in China during these five years was *increasing* by 10% to 112 million, which is about 100 million *more* than the total number of manufacturing workers left in America – and this trend is now only worsening.

I believe that two things are holding the US back from having its own manufacturing & industrial policy – and we need to quickly disabuse both of them.

First, some in the Obama administration, as well as others of influence outside the administration, wrong-headedly believe that one job is as good as another, whether it is in manufacturing or service. This is simply not true, and even the simplest comparison of the two sectors shows that:

- Compensation in manufacturing jobs is 20% greater than in non-manufacturing jobs;
- Service jobs do very little to help America's balance of trade, and mostly just move incomes around the country; and
- Manufacturing overall has by far the largest multiplier effect of any job sector in the country, creating: $1.40 of additional economic activity for each $1.00 of direct spending; on average, 2.5 jobs in other sectors for each job in it; and, at the upper bounds, 16 jobs for each high-tech manufacturing job.

Second, these individuals assume, with no supporting evidence whatsoever, that new jobs associated with exported services will make up for past and future manufacturing job losses. One administration official even said recently that America's export future resides, and I quote, in exporting "consulting and legal services, software, movies and medicine". It is naïve to speak so optimistically of these non-material activities, and it is simply wrong to view exported services as ready substitutes for good manufacturing jobs, since large-scale high-quality service jobs are heavily dependent on and correlated to a strong manufacturing sector. The reality is that in the future, high-quality service jobs are at least as much at risk of being offshored as are manufacturing jobs, with India and China especially keen on seeing such jobs domiciled on their own shores.

To offer just one big example of what the failure to have our own manufacturing & industrial policy has wrought, the State of California, which is now confronting the largest annual budget deficit in the history of the Union, would in fact have a dramatically smaller deficit, or maybe even none at all, if in the State manufacturing workers today represented simply the same share of total workers as they did in the year 2000, which was 12.8%. Instead, however, California lost, over this period, more than 400,000 manufacturing jobs which, after considering multiplier effects, would have benefited the State on the order of $300 billion of cumulative *income taxable* wages.

In addition to throwing its full weight behind an all-of-government manufacturing & industrial policy, the administration must also be willing to:

- "Pick winners" in the economy and then support them, despite its apparent aversion to doing so, because frankly all other developed nations and China do so every day, to great effect. The administration moved modestly in this direction with its proposals to encourage private investment in wind and solar energy and by making targeted federal investments in building retrofits, smart grids and meters, and clean transportation systems. However, it needs to do much, much more if we are to create new comparative advantages in these and other industries, and particular attention needs to be paid to associated training, access to low-cost energy, and financing provisions for small and medium size manufacturers.
- Fund a ten-year (not the current two-year) program of significant public investment to upgrade and rebuild our nation's infrastructure, which would provide the much-needed foundation for higher-value added production and advanced business services.
- Adopt, consistent with WTO rules, "Buy American" requirements related to all federal procurement, especially procurement associated with new investments in

infrastructure and green energy initiatives. Federal purchases make up about 20% of the economy, yet America appears to be the *only* nation among the major developed nations and China without a significant "buy domestic" procurement program.

- Enact major corporate tax reform to make incentives for corporations to create jobs here and eliminate the incentives for them to relocate manufacturing jobs, as well as service jobs, abroad. This should include reducing the corporate income tax and payroll tax and moving to a value-added-tax or VAT to replace that lost revenue.

A national industrial policy cannot succeed, however, without complementary trade policies that prevent other economies from gaining unfair competitive advantages. The trade deficits accumulated just during the Bush administration – a whopping $4.7 trillion – were a major cause of the loss overseas of 5.3 million manufacturing jobs and more than 2 million service jobs, and they made the US economy about $1.5 trillion smaller today than it would have been otherwise.

We couldn't afford these economy-zapping job losses then, and we certainly can't afford them now. Notably, even today's recession-shrunken trade deficit of 2.5% of GDP will subtract more from the demand for US goods and services than the economic stimulus plan will add, and in normal times our trade deficits consistently aggregate an even more economy-draining 5% or so of GDP.

The administration and Congress should, I believe, immediately move away from our decades of misguided trade policies and demand trade agreements that have meaningful labor and environmental standards and forbid illegal subsidies and currency manipulation. We also need to dispense with "one size fits all" trade agreements that ignore significant differences in levels of development, forms of government, and reciprocity.

At the same time, we need meaningful trade policy coordination among especially the G-8, and we need it to counter the confusing statement out of the administration recently that “floating exchange rates mean that economic policies don’t have to be harmonized among nations”. Of course, they do!

And on an overall basis, right now the major “surplus nations” – specifically, China with its enormous $2 trillion of foreign currency reserves, Germany and the oil-exporting nations – also need to immediately deploy a significant portion of their accumulated foreign reserves where doing so will most stimulate the world economy, whether it be within their own economies, overseas, or, in order to assist the poorer countries, in a combination of long-term development loans and Official Development Assistance or ODA.

Most important when it comes to trade and globalization, however, we need a fundamental re-examination of our relationship with China.

China’s massive trade surplus with the United States – a staggering $277 billion of manufactured goods just in 2008 – is the result of its severely undervalued currency, massive subsidies to its own manufacturers, and elaborate policies to induce foreign corporations to shift their production facilities and technology to it. These policies have already cost us millions of jobs, and they will keep costing us jobs until they are fixed.

Challenging China over its unfair trade practices is not just necessary for the future of US manufacturing jobs, however – it is also critical for the world economy. The global economy simply can’t function if the third-largest individual economy runs current account surpluses on the order of 8 to 10% of GDP, as China has done consistently for the past few years.

In closing, these are truly unprecedented times, and thus looking at past business cycles and responses is likely to be of only very limited relevance and utility. To address the current desperate situation, we need, as soon as possible, an Emergency National Summit on Manufacturing, to be attended by relevant Cabinet officers, the bipartisan leadership of both Houses of Congress, and a small number of the top corporate and labor leaders on this issue. And we especially need an activist executive branch and Congress willing to turn around the excessive laissez faire and deregulatory approaches of the last eight and, in some cases, the last thirty years, and to enact a national manufacturing & industrial policy that matches and competes fairly with the industrial policies of our major trading partners, especially China.

Thank you, and I am happy to answer any questions you may have.

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