

Real Estate Strategies

What Does It Take To Retain US Manufacturing Jobs?

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CAN THE UNITED STATES AFFORD TO LOSE MORE OF ITS MANUFACTURING BASE? EVERYONE AGREES THAT THE U.S. IS NO LONGER THE MANUFACTURING GIANT IT ONCE WAS, BUT JUST HOW FAR HAS AMERICA SLIPPED IN THE PAST HALF CENTURY, AND HOW MUCH MORE CAN WE AFFORD TO SLIP?

An analysis of the numbers reveals a disturbing long-term trend. In 1950, manufacturing accounted for 33.7 percent of all non-farm jobs; by 2000, the proportion had dropped to 14 percent, reports the U.S. Department of Labor. Not only has the percentage dropped over the past half-century, the total number of manufacturing jobs has decreased by 1.8 million since 1980 (per U.S. Census Bureau data).

The trend's long-term implications reflect a need for government assistance to maintain manufacturing in the U.S. Comparisons of the **Area Development Magazine Survey of Executives** in 1997 and 2002 make the call for Federal action compelling. (See chart).

With the total manufacturing base in the U.S. diminishing so quickly, state development officials are searching for the right formula to attract facilities to their states. These officials ask, "What does it take to attract manufacturing?"

Is it better quality-of-life? Or should state and local officials just "show me the money," that is, the economic incentives?

Rest assured, it's not quality-of-life. If we combine the survey's site selection and quality-of-life factors, none of the quality-of-life factors has a high enough score to make the top 10. In fact, quality-of-life factors tend to be secondary factors in the decision-making process for manufacturing (77 percent of respondents) and

warehouse/distribution facilities (6 percent of respondents).

The bottom line is, there's no substitute for economic incentives. When asked to judge the relative importance of quality-of-life factors, respondents allocated these factors, with the exception of *low crime rate*, a total of 71.4 percent, or an average of 8.9 percent per factor, in the "very important" category. *State and local incentives* alone received a rating of 50 percent; *tax exemptions*, 49.1 percent; and *corporate tax rate*, 47.3 percent in the "very important" category.

The key to a strong economic development program is reducing the cost of doing business. And there's no substitute for an affordable, skilled labor pool.

Area Development Corporate Survey TOP 10 FACTORS IN SITE SELECTION

A Comparison of Corporate Priorities in 2002 versus 1997

	RANK	
	2002	1997
Availability of Skilled Labor	1	4
Labor Cost	2	2
Tax Exemptions	3	14
State & Local Incentives	4	11
Highway Accessibility	5	1
Corporate Tax Rate	6	N/A
Proximity To Major Markets	7	10
Occupancy or Construction Costs	8	3
Energy Availability and Costs	9	8
Environmental Regulations	10	12

All figures are based on percentages and are the total of "very important" and "important" ratings of the Area Development Corporate Survey

Within this year's top 10, there are three major categories: labor, taxes and incentives, and access. The top two positions are labor-related: first place to *availability of skilled labor*; second to *labor costs*. Both factors also ranked high in 1997, in fourth and first place, respectively. Interestingly, *availability of unskilled labor* slid down in rank from number 17 in 1997 to number 20 in 2002.

For those manufacturing companies that continue to do business in the U.S., the ranking of *availability of skilled labor* will rise, while the need for *unskilled labor* decreases. If a company requires unskilled labor, it is unlikely to remain in the U.S. when such labor is available elsewhere for less than 50 cents per hour.

A comparison of the responses during the boom year 1997 and recession-dominated 2002 reveals that most respondents did not change their priorities much. Of this year's top10 factors, six also ranked among the top 10 in 1997. (*Corporate tax rate*, which ranked sixth in 2002, was not considered as a factor in the 1997 survey.)

After labor, the second most important category is clearly tax and incentive-related. Two factors showed the greatest increase in importance between 1997 and 2002: *tax*

exemptions, which jumped from thirteenth to third place, and *state and local incentives*, which went from tenth to fourth place. This change does not merely reflect the state of the 2002 economy, as executives' attitudes were already changing by 2000, when the economy was still relatively strong, and these factors ranked seventh and fifth, respectively.

Unfortunately, *corporate tax rate*, which ranked sixth in 2002, was not on the list of factors for the 1997 survey, but did rank fourth in 2000.

While the Federal government may need the equivalent of a domestic Marshall Plan to save those U.S. manufacturing jobs that are savable, state and local officials must address the needs of those companies willing to keep their factories on American soil.

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