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New Report Shows California Losing Share of Manufacturing Activity – and the Impact of Manufacturing on a State's Economy

Lots of High Tech Job Growth – in Indiana? Some High Tech Jobs Create 16 Others, Milken Institute Says

SCDigest Editorial Staff

We ran across an interesting new report on the state of California's manufacturing economy recently release by the Milken Institute, a non-profit think tank that looks at a variety of issues that affect the state.

While focused on California, the report is of general interest as it relates to the impact of manufacturing on the overall economic health of a state or nation, and in its comparison of California to seven peer states that have faired better over the past decade with regard to manufacturing output and employment.

The "headline news" is that California has suffered a higher rate of manufacturing job loss in recent years than most other states – which the report says is directly linked to the state's tax and regulatory environment.

"A robust manufacturing industry is an indicator of a nation's ability to foster innovation and drive broad, sustained economic growth, and no state has been more important to U.S. manufacturing competitiveness than California," the report notes. It goes on to say that the health of manufacturing is like a "canary in a coal mine" with regards to the overall health of a state's economy, and that "California has been progressively losing more of its manufacturing employment, particularly high-value-added manufacturing, to other states such as Oregon, Texas, Minnesota, and Washington."

The report looks at data from 2000-2007, thus before the current recession has thrown everything into a whirl, but the data from that period would seem to be reflective of broad overall trends that will likely resume when the economy recovers, and may even have accelerated since the downturn began.

If in 2007 California had been able to maintain the 12.8% of all jobs that were in manufacturing as was the case in 2000, that would have led to an increase of 476,000 direct manufacturing jobs.

476,000 Jobs Lost due to Policies?

California, as with virtually every other state, has been losing manufacturing jobs – but at a faster rate than many others. In fact, in the period from 2003 through 2007, as the overall US economy was strong, California lost 79,000 manufacturing jobs, while seven "peer" states the report uses as benchmarks (Arizona, Indiana, Kansas, Minnesota, Oregon, Texas, and Washington) actually gained 62,000 manufacturing jobs in total. All told, California shed 390,000 manufacturing jobs from 2000-2007.

The relative decline is even more severe in "high tech" manufacturing sectors, which the report defines as including medical products, pharmaceuticals, aerospace, and other sectors in addition to

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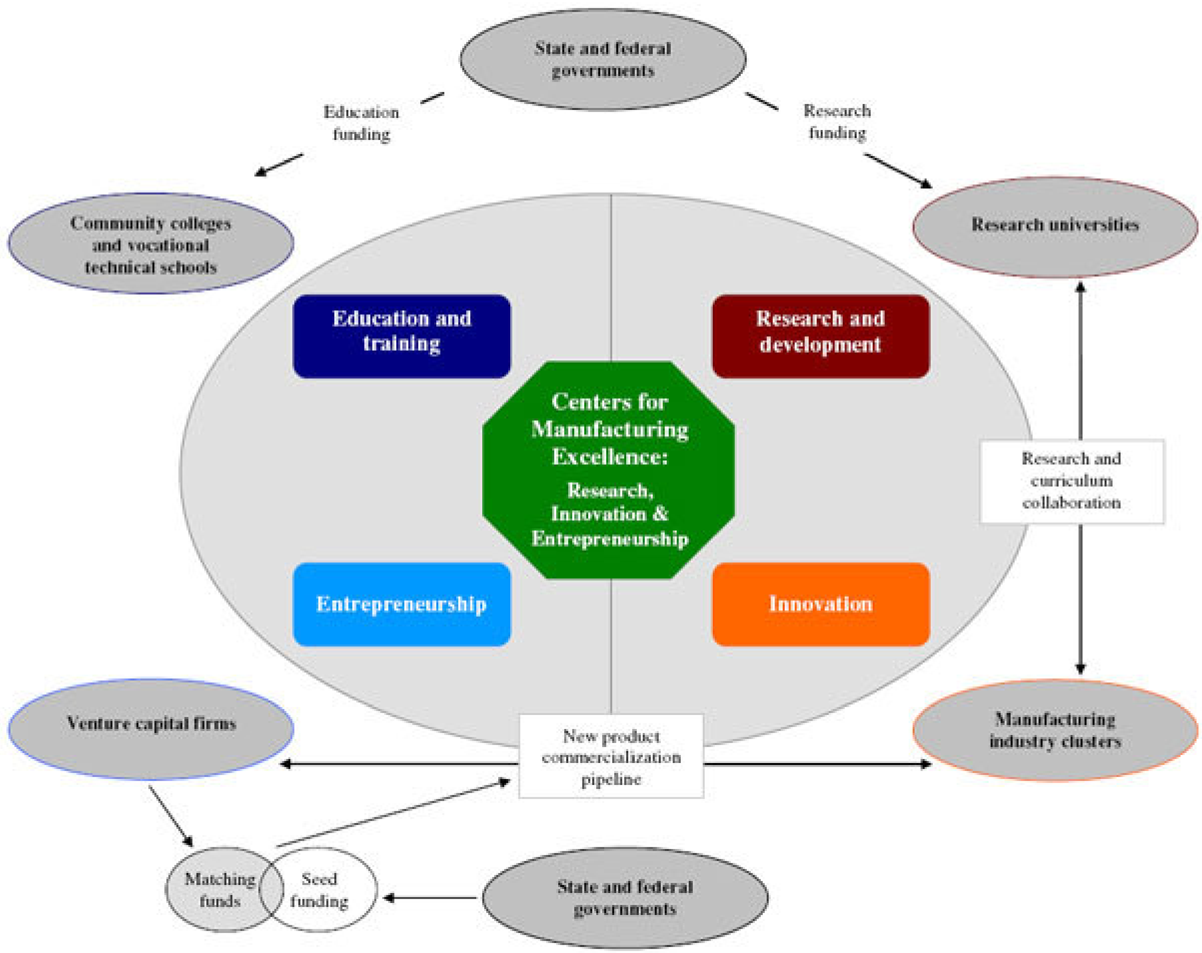
The Milken Institute Recommends a Broad Private-Public Partnership to Preserve and Grow High Tech, High Value-Added Jobs



the electronics and computer industries.

While both California and the peer states lost "high tech" jobs overall, California's share of those jobs fell versus the peer states. In 1990, California was home to 22.3% of total US high tech employment. That had fallen to 20.5% by 2000, and 19.5% by 2007. By contrast, the seven peer states saw their share move from 20.9% in 1990 to 23.9% in 2000 and 25.1% in 2007.

Why is California losing relative share of both overall and high technology production and jobs?

A number of factors are involved, says the report, especially the state's tax and regulatory burdens. For example, "California is consistently ranked among the most challenging states in which to start a business, according to several research institutions," according to the report.

More specifically, the report cites the following issues:

- **Business Climate:** The state is viewed generally as a tough one to do business in

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- **Tax Policy:** California has the highest corporate and individual income tax rates among the peer states, and fourth highest nationally.
- **Regulatory Climate:** California is ranked as the third most restrictive state with regard to regulation, according to the annual Economic Freedom Index – and that's up from sixth place in 1999.
- **Government Spending:** Government spending per capita is more than any of the peer states, and growing faster.

If in 2007 California had been able to maintain the 12.8% of all jobs that were in manufacturing as was the case in 2000, that would have led to an increase of 476,000 direct manufacturing jobs, with hundreds of thousands more jobs created because of the multiplier effect (see below).

Of course, all states and developed economies generally are losing manufacturing jobs to low cost countries such as China, especially in low value-added production areas.

"For the United States to maintain high-technology and high-value-added production, it is critical for the states like California to recapitalize on their inherent strengths by investing in research and development and the creation of innovative manufacturing processes that maintain quality and increase efficiency," the report says. It adds, "To remain competitive and expand into new markets, companies must develop increasingly sophisticated supply chains and production models with suppliers and partners overseas."

Multiplier Effect

The impact from adding or retailing manufacturing jobs is huge.

The report says that overall, each manufacturing job creates an average of 2.5 jobs in other sectors. Astoundingly, the study says that for each job created in the high tech sectors, as many as 15 other jobs are created.

In addition to reducing California's tax and regulatory burdens, the report recommends a broad private-public partnership that would include a network of education, training, research, and business incubation centers around the state to develop a qualified work force, to invent and commercialize advanced techniques, and to assist manufacturing start-up businesses (see illustration).

In many ways, the report's recommendations for California to regain its manufacturing sector advantage mirror those of the National Association of Manufacturers (NAM) for overall US competitiveness (see **US Manufacturing Sector Structural Cost Disadvantage Shrinks, but Still is over 17% Versus Major Global Competitors on Average, NAM Report Says**.)

"California's manufacturing industry, although in decline, holds the key to the state's economic growth," the report concludes. "The state's global reputation as the cradle of American ingenuity begins with California's manufacturers and depends on their capacity to compete…Therefore, as a critical engine of economic growth and a frequent catalyst for innovation, the decline of the state's manufacturing industry is the canary in the coal mine for the California economy as a whole."