Analytics

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RE: Does Delaware manufacturing need a helping hand?

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Delaware's manufacturing industries do not need a helping hand from government. The industries that have declined or even disappeared were not cost competitive. The industries that are surviving and even expanding are. Alternatively, the workers displaced by uncaring and brutal market forces could use a helping hand.

From a peak of 73,000 employees, manufacturing in Delaware is down to 26,000 jobs. What happened? Market forces happened.

By far the largest down-sized industry in Delaware was chemicals were nearly 25,000 jobs disappeared. It is hard for energy intensive chemical manufacturing to be competitive in a high energy cost state and region. Also, the technology behind many "cash-flow" chemicals was mature and easily transported to other countries.

High union labor costs and work rules and slow modernization doomed the automobile manufacturing industry in Delaware. As of 2007 the productivity per worker (value added per employee) in Delaware's auto manufacturing industry was just 32% of the average productivity across Delaware manufacturing.

Other low productivity Delaware manufacturing industries that have lost 80% to 90% of their workers include such activities as textiles and apparel, paper products, furniture, plastics, and rubber products. Textiles and apparel, plastics, and paper are also more intensive users of electricity.

The high productivity industries that are holding their own include pharmaceuticals and medical equipment. The lower productivity food industry is also stable as it is highly integrated backwards and forwards in the southern Delaware economy.

Delaware's growth manufacturing industries are all high productivity. They include electronic instruments, electrical equipment, surgical equipment, and soap and cleaning products.

During the past decade inflation-adjusted output per worker in Delaware manufacturing has soared 53%. This compares with a 21% increase in output per worker across all Delaware industries, a 90% jump in financial services, and a 5% gain in government. Productivity was flat in health care, falling in leisure and hospitality, and dropped nearly 20% in construction.

Typically, industries where it is difficult to substitute capital for labor will not gain in productivity and will not be drivers of economic growth. Output per worker in Delaware manufacturing is 97% above

output per worker in government and construction, 186% higher than health care, and 384% above leisure and hospitality.

With its high levels of productivity, manufacturing continues to be critical to the future of the Delaware economy. The manufacturing industries that have survived the competitive storms over the past three decades are well positioned. To have thrown government money into the manufacturing industries that have faltered would have simply delayed the inevitable.

The persons who suffer most from this brutal life and death cycle among industries are the workers who are displaced. Most disadvantaged among the displaced workers are older folks, the less educated, blacks, women, and former union members. The industry winners in the battle do not write checks to the losers. The E-book industry, for example, is not sending checks to the former employees at Borders.

This is an obvious area where government involvement makes sense. Displaced workers can benefit from retraining and the support that facilitates that process. And society gains from having over the long run a labor force with higher skills and human capital.

It is hard to standby while Delaware manufacturing has diminished. But the competitive have survived, and they can be best helped by a stable tax and regulatory environment.

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