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# Subsidies Aid Rebirth in U.S. Manufacturing

By **LOUIS UCHITELLE**

ROME, N.Y. — Walking through his high-ceilinged factory here, explaining the production of sheets of copper, M. Brian O’Shaughnessy comes across as a staunch advocate of manufacturing in America. But he invariably adds: “There is nothing made in the United States that has to be made here — that can’t be shipped in from some other country.”

As chairman and principal owner of [Revere Copper Products](#), Mr. O’Shaughnessy runs one of America’s oldest manufacturing companies, started by Paul Revere himself, a fact that exerts considerable pressure. As he put it: “What kind of a message are you sending to the people of the country if you abandon America?”

But spend a day with him, and a more complex picture emerges. He wonders sometimes about the less patriotic alternative of relocating production to Asia or closing the factory entirely on the ground that Revere’s profit margin here is too thin — less than \$1 million on \$450 million in annual revenue.

“If we simply shut down today,” Mr. O’Shaughnessy said, “I could sell the inventory and the machinery, which could be moved elsewhere in the world, and pay off our debts and walk away with \$35 million to \$40 million.”

What staves off those alternatives are labor concessions and a substantial government subsidy, something he and others in the United States say is increasingly important to fuel a nascent recovery in manufacturing. The labor concessions at Revere, in a contract endorsed by the United Automobile Workers, are much like those unions are giving to other manufacturers. The subsidy comes from New York State, which supplies, at cost, the electric power that Revere uses to produce copper sheets and slabs. Mr. O’Shaughnessy says it accounts for half of Revere’s profit.

With such support, the key measure of manufacturing’s presence in America is ticking upward. The

Commerce Department's Bureau of Economic Analysis reported in April that [manufacturing's contribution to the gross domestic product](#) rose in 2011 to 12.2 percent from 11.7 percent in 2010 and 11 percent in 2009. The current share is, of course, far less than in the 1950s, when manufacturing reached 28 percent of the economy, and then went into a long, gradual decline. But for the first time since then, the percentage has risen over a three-year period.

"Basically, manufacturers are realizing that the cost structure for making products in America no longer needs to be as unfavorable as it was," said Jared Bernstein, a senior fellow at the [Center on Budget and Policy Priorities](#) in Washington and a former chief economist to Vice President Joseph R. Biden Jr.

The evidence is easy to spot. An American company, Element Electronics, for example, has made flat-screen televisions for years at a factory in China but is now expanding in America. It recently opened a factory near Detroit that is producing the first televisions made in the United States by any company in years.

At General Electric, local tax breaks and a concessionary union contract contributed to G.E.'s decision to manufacture its latest electric water heater in Louisville, Ky. — instead of in China. Similarly, the Otis Elevator Company is moving production to a new factory in Florence, S.C., from a plant in Nogales, Mexico, and Master Lock has switched the manufacture of combination locks back to Milwaukee from China.

At P.A.M.A. Furniture, in Jamestown, N.C., the owning Pennisi family has begun to manufacture upholstered chairs and sofas "from scratch," according to Anthony Pennisi, a vice president.

Until recently, the Pennisis imported chair frames from Italy and Indonesia, and finished them at the family's Jamestown factory. Manufacturing everything here is more expensive, Mr. Pennisi said, and he has asked for government help. "I think we are a prime example of a small manufacturer producing a Made-in-America product and trying to survive," he said.

The thread running through these decisions is an acknowledgment by management and labor that manufacturing needs a little help in the form of local, state and national subsidies for survival in a global economy in which Asian and European producers are routinely subsidized.

"The only manufacturers in America who go without government support are those whose markets are so insignificant that they are not noticed by foreign producers," said Mr. O'Shaughnessy, who is a co-chairman of the [Coalition for a Prosperous America](#), a lobbying group that seeks to strengthen

domestic production.

Apart from subsidies, organized labor's givebacks in recent years have contributed significantly to what manufacturers call "lean" practices.

At Revere, "lean" means that employment has fallen to 360 from 450 two decades ago. The half-hour lunch break is no longer paid time for the 260 hourly workers. (They earn \$19 an hour on average.) Employees pay some of their health insurance premium. And management alters factory routines and tasks without first consulting the union, U.A.W. Local 2367, which for months has turned the other cheek. Partly as a result, the time required to turn a 22,000-pound cake of copper into finished sheets of various thicknesses has been reduced to three days from three weeks.

"The company shows us a newsreel that makes the point that since the year 2000, the United States has lost 56,000 factories and five or six million manufacturing jobs," said Tom Slocum, chairman of the U.A.W. local's bargaining committee, "and the message is that, but for the O'Shaughnessys, the factory here could join the 56,000."

Despite those lost factories, the United States was the world's largest manufacturer in terms of value added for many years — until China gradually edged into the lead over the last few years. Value added means the value in dollars that is added when a \$100 sheet of copper, for example, is cut and shaped into a \$150 roof gutter. By that standard, a fully assembled car is worth more than the value of its numerous parts before assembly. Each factory operation adds value, and the measuring gauge speeds along, reaching \$1.8 trillion in the United States in 2011.

In China, where the gauge has been rising faster than in the United States, the value added by manufacturing was about \$1.9 trillion last year, according to government and private estimates.

That Chinese milestone is reflected in America's merchandise trade deficit, which has remained stubbornly high, mainly because of the imbalance with China. American multinationals have contributed to the shift, frequently making in Asia what they sell in Asia and, in many cases, in the United States. Revere hasn't participated, though, even as its customers moved their production of copper products like pots and pans, electrical wiring and roof gutters offshore. Those customers shifted to foreign suppliers.

"We have lost 30 percent of our business this way," Mr. O'Shaughnessy said. "We had to shrink our staff to stay alive."

Given his druthers, he would have the United States step up its own mercantilist practices, which means greater government support. A big one, from a manufacturer's point of view, would be a devaluation of the dollar to lower the cost of exports in foreign currencies.

Mr. O'Shaughnessy, who is a vigorous 69, has ceded management of Revere to a son, Michael, now chief executive. Freed of day-to-day responsibilities, he drove a rented Harley-Davidson last month across the Argentine pampas and the Andes, traveling alone from Buenos Aires to Valparaíso, Chile.

But most of his adventure has been here in Rome, where he became, in the late 1980s, the chief executive of Revere. He was hired after Michael Milken, the takeover king, acquired the company in a hostile leveraged buyout.

Mr. Milken's organization sold several divisions, including the one that made pots and pans, and soon sold control to Mr. O'Shaughnessy, who borrowed \$64 million to make the purchase. He closed a second factory, in Massachusetts, where Paul Revere started the company in 1801.

Mr. O'Shaughnessy's boast about the potential windfall from closing the remaining factory here is rooted in the belief that conviction and determination, as much as economics, sustains manufacturing in America.

"As manufacturing moves abroad, mostly to China, could Revere follow? Yes," he says. "Will Revere? Never." To minimize the risk that his decision will be reversed after he is gone, he is leaving all his shares, he said, to whichever of his three sons is most likely to keep Revere's production in America.

That son might even someday restore electric power to a huge neon-lighted depiction of Paul Revere on horseback, who, back when the sign was lighted, seemed to gallop across the night sky high above the factory's roof. Mr. O'Shaughnessy cut the power to save money, and Rome, N.Y., lost a distinguishing spectacle — an animated landmark that drew schoolchildren and tourists and that heralded Rome as a proud manufacturing city.