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U.S. Manufacturing in International Perspective

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Summary

The health of the U.S. manufacturing sector has long been of great concern to Congress. The decline in manufacturing employment since the start of the 21st century has stimulated particular congressional interest. The Obama Administration has undertaken a variety of related initiatives, and Members have introduced hundreds of bills over many sessions of Congress intended to support domestic manufacturing activity in various ways. The proponents of such measures frequently contend that the United States is by various measures falling behind other countries in manufacturing, and they argue that this relative decline can be mitigated or reversed by government policy.

This report is designed to inform the debate over the health of U.S. manufacturing through a series of charts and tables that depict the position of the United States relative to other countries according to various metrics. Understanding which trends in manufacturing reflect factors that may be unique to the United States and which are related to broader changes in technology or consumer preferences may be helpful in formulating policies intended to aid firms or workers engaged in manufacturing activity. This report does not describe or discuss specific policy options.

The main findings are the following:

- The United States' share of global manufacturing activity declined from 28% in 2002, following the end of the 2001 U.S. recession, to 16.5% in 2011. Since then, the U.S. share has risen to 17.2%. These estimates are based on the value of each country's manufacturing in U.S. dollars; part of the decline in the U.S. share was due to a 23% decline in the value of the dollar between 2002 and 2011, and part of the rise since 2011 is attributable to a stronger dollar.
- China displaced the United States as the largest manufacturing country in 2010. Again, part of China's rise by this measure has been due to the appreciation of its currency, the renminbi, against the U.S. dollar.
- Manufacturing output, measured in each country's local currency adjusted for inflation, has grown more slowly in the United States over the past decade than in China, Japan, Germany, and Mexico.
- Employment in manufacturing has fallen in most major manufacturing countries over the past quarter-century. In the United States, manufacturing employment since 1990 has declined in line with the changes in Western Europe and Japan, although the timing of the decline has differed from country to country.
- U.S. manufacturers spend far more on research and development (R&D) than those in any other country, but manufacturers' R&D spending is rising more rapidly in China, South Korea, and Taiwan.
- Manufacturers in all major manufacturing countries appear to be spending increasing amounts on R&D, relative to their value added. U.S. manufacturers spend approximately 11% of value added on R&D, an increase of more than three percentage points since 2002. A very large proportion of U.S. manufacturers' R&D takes place in high-technology sectors, particularly pharmaceuticals, electronics, and aircraft manufacturing, whereas in most other countries a far greater proportion of manufacturers' R&D outlays occurs in medium-technology sectors such as motor vehicle and machinery manufacturing.

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Introduction

The health of the U.S. manufacturing sector has long been of great concern to Congress. The large decline in manufacturing employment since the start of the 21st century has stimulated particular congressional interest. Over the years, Members have introduced hundreds of bills intended to support domestic manufacturing activity in various ways. The proponents of such measures frequently contend that the United States is in some way falling behind other countries in manufacturing, and argue that this relative decline can be mitigated by government policy.

Examining U.S. manufacturing in isolation sheds little light on the causes of changes in the manufacturing sector. While some of those changes may be a result of factors specific to the United States, others may be attributable to technological advances, shifting consumer preferences, or macroeconomic forces such as exchange-rate movements. This report is designed to inform the debate over manufacturing policy by examining changes in the manufacturing sector in comparative perspective. It does not describe or discuss specific policy options.

The charts and tables on the pages that follow depict the position of the United States relative to other major manufacturing countries according to various metrics. Not all countries compile information on each subject. This report draws on data from a number of sources, and has certain unavoidable statistical problems of which the reader should be aware.

Despite meaningful progress in standardization, countries define “manufacturing” in different ways. Some associate manufacturing with factory production, while others may label a self-employed artisan as a manufacturing worker. Some countries have sophisticated sampling systems to collect data about production and employment from firms and households, whereas others rely heavily on estimates drawn from macroeconomic models or collect data only from a non-random subset of enterprises. International comparisons of compensation data are especially difficult because of national differences in taxation and employee benefits. Complicating matters further, the organizations that compile statistics obtained from national governments may adjust the raw data in different ways to improve compatibility, such that certain figures used to prepare this report may not be identical to those published by national statistical services.

Additionally, analysis of trends in manufacturing is complicated by often arbitrary distinctions between manufacturing and non-manufacturing activity. If, for example, a manufacturing firm owns the trucks that deliver its goods, statisticians may count the truck drivers as manufacturing-sector workers, and their wages may be included in manufacturing value added. If the manufacturer instead contracts with a separate trucking company to deliver its goods, statisticians will consider the truck drivers to be transport-sector workers and their wages will be included in transport-sector value added, making the manufacturing sector appear smaller—even though there has been no change in the total amount of labor or the tasks performed.

All of these factors argue for caution in the use of these data, and warn against unwarranted assumptions of precision.

How the U.S. Manufacturing Sector Ranks

The standard measure of the size of a nation’s manufacturing sector is not manufacturers’ sales, but rather their value added. Value added attempts to capture the economic contribution of manufacturers in designing, processing, and marketing the products they sell.

At the level of an individual firm, value added can be calculated as total sales less the total cost of purchased inputs, such as raw materials and electricity. Thus, a firm that purchases raw materials

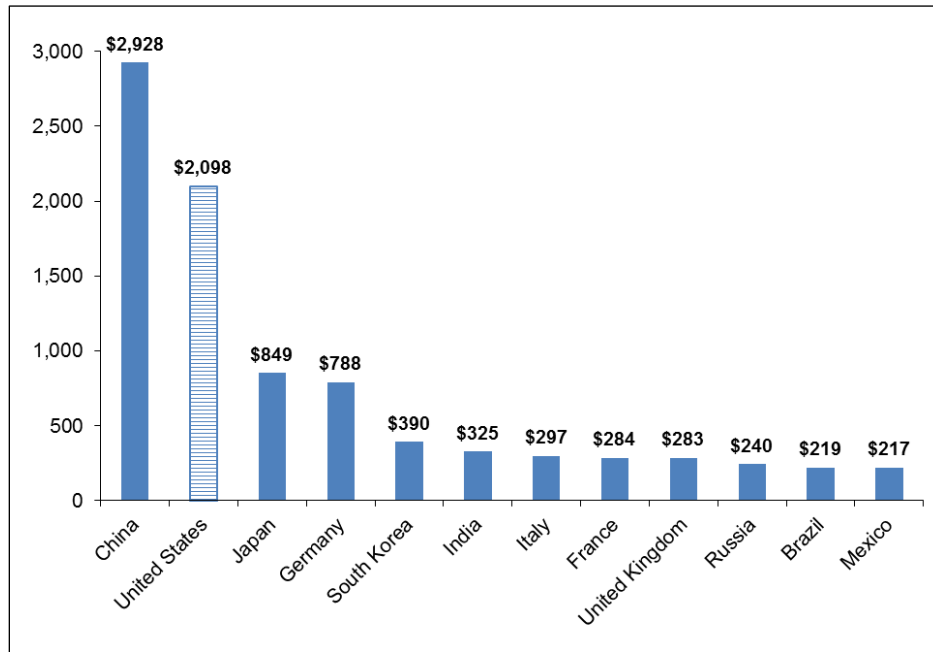
and processes them only slightly may have substantial sales, but will produce little value added. Alternatively, a firm's value added can be measured as the sum of its employee compensation, business taxes (less subsidies), and profits.

The size of a country's manufacturing sector cannot be determined simply by adding up the value added of its manufacturers. If a domestic manufacturer uses inputs from its plants abroad, those inputs contain value added by the firm, but not domestically. Calculating total value added in manufacturing thus requires adjustments for imported parts and components incorporated into the output of domestic factories, and also for domestic goods and services that were exported and used in another country to make products that were subsequently imported.

According to United Nations estimates, China displaced the United States as the largest manufacturing nation in 2010. In 2014, according to the U.N. figures, China's value added in manufacturing reached \$2.9 trillion, compared to \$2.1 trillion for the United States. These estimates are calculated in U.S. dollars, and China's measured rise relative to the United States is partially due to the fact that after being stable for many years, China's currency, the renminbi, strengthened 25% against the dollar between July 2005 and December 2014.¹ Japan ranked third in manufacturing value added at \$849 billion in 2014 (see **Figure 1**). Its reported manufacturing value added declined 23% between 2012 and 2014, a period in which its currency declined 40% against the dollar. Germany is the only other country whose manufacturing sector is more than one-sixth the size of that in the United States.²

Figure 1. Leading Countries, Value Added in Manufacturing

Billion dollars, 2014



Source: United Nations National Accounts Main Aggregates Database, value added by economic activity, at current prices—U.S. dollars.

¹ Currency appreciation calculated from Federal Reserve Board, G.5 release.

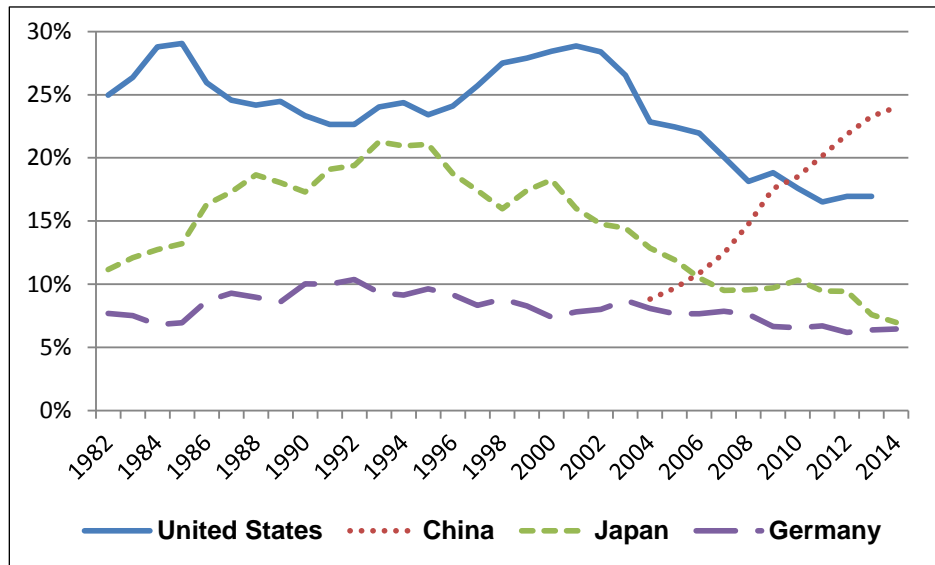
² United Nations National Accounts Main Aggregates Database, value added by economic activity at current prices—U.S. dollars, <http://unstats.un.org/unsd/snaama/resQuery.asp> (accessed March 1, 2016).

The U.S. share of global manufacturing value added has declined over time, from 29% in the early 1980s to 17.2% in 2014 (see **Figure 2**). Similarly, Japan’s share of global manufacturing value added has contracted from a peak of 21.3% in 1993 to around 7% now, and Germany’s has fallen from 10.4% (in 1992, just after the incorporation of the former German Democratic Republic into the Federal Republic of Germany) to 6.5%. It is important to note that global shares are measured in U.S. dollars, so each country’s share in a given year is greatly affected by the strength of its currency against the dollar.

The declining shares of the wealthy economies are a consequence of the very rapid increase in manufacturing activity in emerging economies, notably China. Manufacturing value added in the United States, as measured by the U.S. Bureau of Economic Analysis in inflation-adjusted 2009 dollars, rose 38% from 1997 to 2014, although by that measure manufacturing activity has yet to exceed the level at the onset of the most recent recession in 2007.³

Figure 2. Selected Countries’ Shares of Global Manufacturing Value Added

Calculated in current U.S. dollars



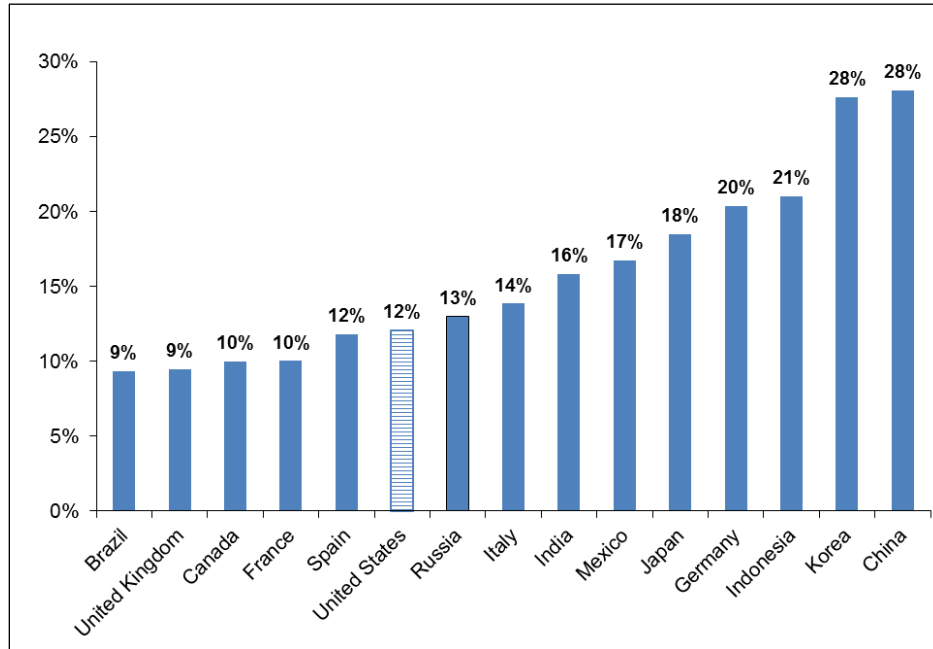
Source: United Nations National Accounts Main Aggregates Database, value added by economic activity, at current prices—U.S. dollars.

Manufacturing value added amounted to 12.1% of total U.S. gross domestic product (GDP) in 2014, according to United Nations calculations. Manufacturing is more significant in the United States, relative to the size of the economy, than in the United Kingdom, France, and Canada, but much less important than in Japan, Germany, Indonesia, South Korea, and China (see **Figure 3**). The manufacturing share of total economic output in China declined from 32% in 2010 to 28% in 2014, while the share of manufacturing in the U.S. economy remained relatively stable.

In this respect, it is important to note that a high ratio of manufacturing value added to GDP is not necessarily a sign of economic vibrancy. To the contrary, a high ratio may indicate that various policies or practices, such as labor regulations, credit subsidies, or protection from imports, are standing in the way of a reallocation of capital and labor from manufacturing to other sectors in which they might contribute more to economic growth.

³ Bureau of Economic Analysis, real value added by industry, (accessed March 24, 2016).

Figure 3. Share of Manufacturing in National Economies
 Manufacturing value added as percentage of Gross Domestic Product, 2014

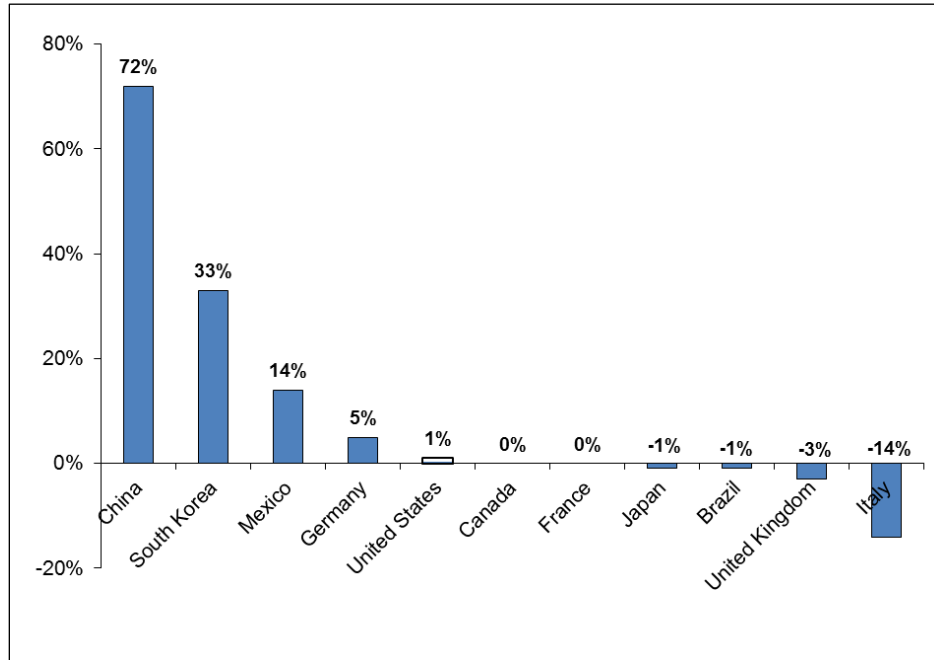


Source: United Nations National Accounts Main Aggregates Database, value added by economic activity and Gross Domestic Product, at current prices—national currency.

Despite its relatively low rank in manufacturing as a share of GDP, the United States appears to have outperformed most other wealthy countries in the growth of manufacturing value added in recent years. Between the recession year of 2008 and 2014, U.S. value added in manufacturing, adjusted for inflation, rose slightly, according to U.N. data. Manufacturing value added was flat over the same period in Canada, France, Japan, and Brazil, and declined in the United Kingdom and Italy. China, South Korea, Mexico, and Germany had much faster growth in manufacturing value added than the United States over the same period, after adjusting for inflation (see **Figure 4**). These data are expressed in terms of each country's currency, adjusted for its domestic inflation, so exchange-rate changes play no role.⁴

⁴ United Nations National Accounts Main Aggregates Database, Value Added by Economic Activity at constant 2005 prices, national currency, <http://unstats.un.org/unsd/snaama/selbasicFast.asp>.

Figure 4. Change in Value Added in Manufacturing, 2008-2014
Adjusted for inflation in each respective country



Source: United Nations National Accounts Main Aggregates Database, value added by economic activity at constant 2005 prices, national currency.

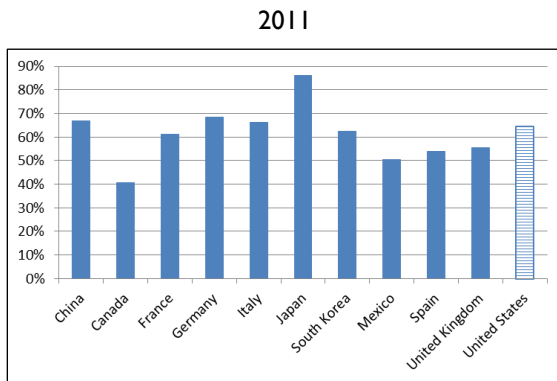
Domestic value added accounts for a comparatively high proportion of the value of U.S. manufactured exports. In other words, U.S. manufacturers use relatively fewer imported inputs and more domestically produced inputs, compared to manufacturers in other countries, with the notable exception of Japan. In 2011, the most recent year for which data are available, 78.5% of the value of U.S. manufactured exports was added in the United States. By contrast, less than 60% of the value of manufactured goods exported by China, South Korea, and Mexico was added in those countries.⁵

The proportion of domestic content varies considerably by product, depending mainly on the extent of international supply chains. For example, 65% of the value of U.S. exports of motor vehicles in 2011 was added in the United States. This was on a par with France, Germany, and Italy, but considerably less than Japan (see **Figure 5**). With respect to exports of electrical and optical equipment, the share of value added domestically is greater for the United States (85%) than for any other country. Although China is by far the largest exporter of such products, less than half the value of its exports is added within the country.⁶

⁵ Calculated from Organisation for Economic Co-operation and Development (OECD), Trade in Value Added, Origin of Value Added in Gross Exports (accessed March 24, 2016).

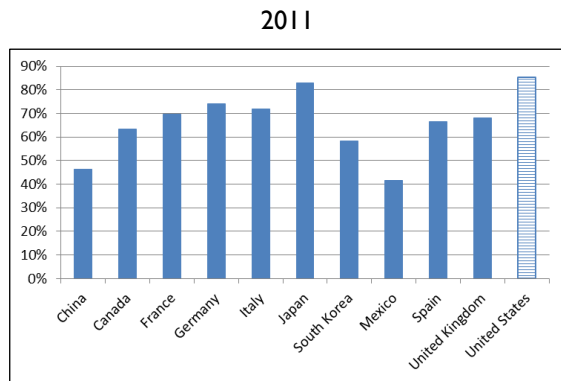
⁶ Ibid.

Figure 5. Domestic Value in Exports of Transport Equipment



Source: OECD-WTO Trade in Value Added, Value Added in Gross Exports by Source.

Figure 6. Domestic Value in Exports of Electrical and Optical Equipment



Source: OECD-WTO Trade in Value Added, Value Added in Gross Exports by Source.

The United States has performed well in manufacturing, compared to other high-income economies, when viewed over a longer time period. From 1990 through 2014, the only high-income countries with faster growth in manufacturing value added were a handful of smaller economies including Finland, Israel, and Sweden, as well as South Korea.

Additionally, data on inflows of foreign investment suggest that the United States has been an attractive manufacturing location relative to other high-income countries in recent years. In 2014, 58% of foreign direct investment coming into the United States went into the manufacturing sector. The vast majority of this investment, some \$76 billion, involved acquisition of pharmaceutical manufacturers.⁷ The limited data on other wealthy countries show much smaller flows of foreign investment into manufacturing.⁸ However, it is possible that recent data on foreign investment in U.S. manufacturing have been affected by “inversions,” in which U.S. corporations become wholly owned subsidiaries of foreign corporations for tax reasons. If a U.S. manufacturer moves its headquarters abroad as the result of an inversion, its stock of fixed capital in the United States is reclassified as foreign-owned, and any future capital investment will be counted as foreign direct investment rather than domestic investment.⁹

Data permitting international comparisons of capital investment in manufacturing are available for only a few countries. These indicate that U.S. gross investment in fixed manufacturing capital, such as factories and equipment, is in about the same range as in West European economies, but much lower than in Mexico and South Korea (see **Figure 7**).¹⁰

Interpreting these data on investment in manufacturing is problematic. A high ratio of gross fixed capital formation to output is not necessarily positive from an economic point of view; if such investment is generating a low return, then high capital investment could indicate inefficient use

⁷ U.S. Bureau of Economic Analysis, “Expenditures by Foreign Direct Investors for New Investment in the United States, 2014,” November 30, 2015, <http://www.bea.gov/newsreleases/international/fdi/fdinewsrelease.htm>, Table 1.

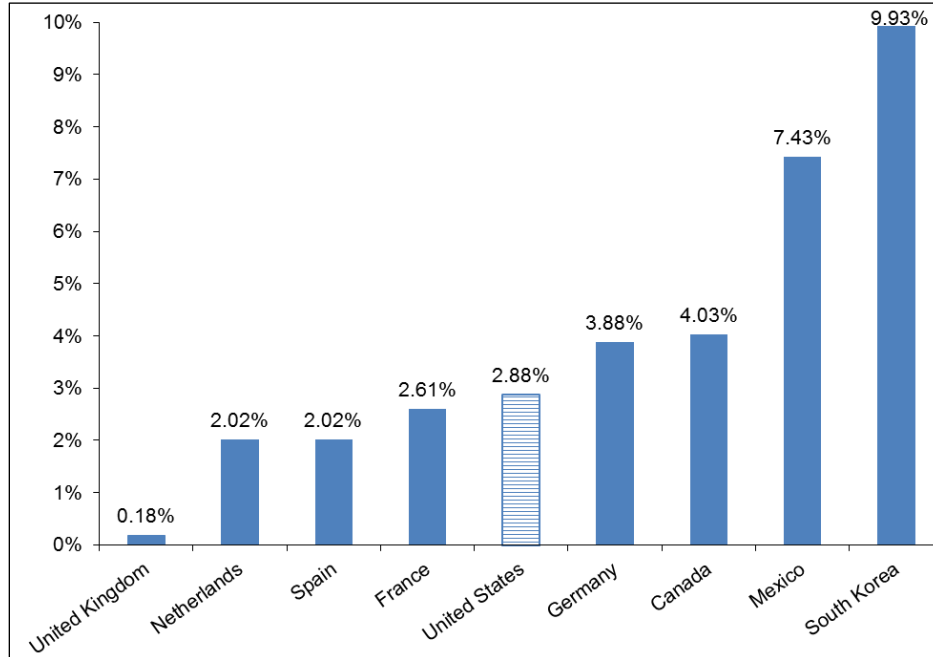
⁸ OECD International Direct Investment Statistics, “Foreign direct investment: financial flows by industry,” accessed March 28, 2016.

⁹ Jessica M. Hanson, Howard I. Krakower, Raymond J. Mataloni Jr., and Kate L.S. Pinard, “The Effects of Corporate Inversions on the International and National Economic Accounts,” *Survey of Current Business*, February 2015.

¹⁰ OECD National Accounts Statistics, Capital formation by activity - ISIC Rev. 4, accessed March 28, 2016.

of capital. The relatively low level of gross investment in the United States might therefore indicate that U.S. manufacturers pay greater attention to return on capital than their counterparts in other countries. Another explanation might be that U.S. manufacturers face comparatively few obstacles to contracting fabrication or assembly work to manufacturers abroad, whereas other nations may have policies in place to promote domestic fabrication and assembly or to discourage foreign sourcing. Also, it is important to note that the definition of gross fixed capital used by the OECD appears to exclude software, which may represent a greater share of investment by U.S. manufacturers than by those in other countries.¹¹

Figure 7. Investment in Manufacturing Fixed Capital as Share of GDP, 2014



Source: OECD, National Accounts Statistics, Capital Formation by Activity.

Note: Data for Mexico pertain to 2012, South Korea to 2013.

The Role of Services in Manufacturing

Measuring manufacturing activity is not without problems, largely because of the imperfect line between manufacturing and services. U.S. statistical agencies, for example, consider work performed at establishments whose principal business is manufacturing to be manufacturing, regardless of the specific tasks involved. Similarly, all activities occurring at establishments whose principal business is services are considered service activities.

¹¹ OECD uses the definition established by the United Nations Statistics Division, which reads: “Gross fixed capital formation is measured by the total value of a producer’s acquisitions, less disposals, of fixed assets during the accounting period plus certain additions to the value of non-produced assets (such as subsoil assets or major improvements in the quantity, quality or productivity of land) realised by the productive activity of institutional units.” <http://unstats.un.org/unsd/snaama/glossresults.asp?gID=34>.

The following three examples will illustrate the statistical confusion that can result.

- If a manufacturing facility designs and then fabricates a product, the design activities generally count as value added in manufacturing and the workers engaged will be tabulated as manufacturing employees.
- If the design is created within the manufacturing firm but at a location where no physical production occurs, it could conceivably count as either a manufactured product or a service-sector product.
- If the manufacturer purchases the design from a specialist design firm, the value added in the design process will be credited to the service sector, and the workers involved will be considered service-sector employees.

In all three cases, total employment and total value added are identical; all that differs is the economic sector to which the employment and value added are attributed.

Identifying manufacturing work has become even more difficult in recent years as distribution centers, which formerly were engaged almost entirely in warehousing, have increasingly assumed tasks that traditionally were performed in factories. For example, workers in a distribution center may receive imported products in bulk, customize them before shipment to retailers or end users, and package them for individual sale. As of May 2015, more than 29,000 workers at U.S. warehousing and storage facilities were engaged in manufacturing production activities such as assembly, fabrication, and packaging. Their output is unlikely to have been captured as value added in manufacturing.¹²

Moreover, determining the location at which value is added to a service that is used in a manufactured product can be all but impossible. Manufacturers frequently procure components from many suppliers in lengthy international supply chains, and each of those suppliers is likely to purchase service inputs to at least a limited extent. The service providers themselves may be international firms, and their involvement in a given production process may involve workers on several continents.

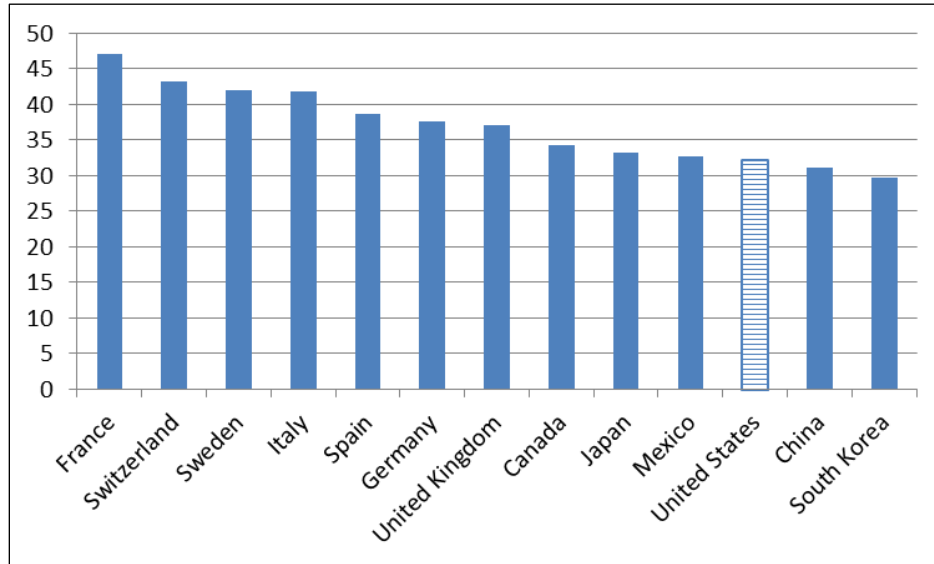
Efforts to measure the value of manufacturing-related services more accurately are still in their infancy. According to 2011 data, U.S. exports of manufactured products include a lesser proportion of services content than exports of most other advanced economies (see **Figure 8**). As a result, only 5% of U.S. service sector jobs depended on manufacturing exports in 2015, compared with nearly 8% in Japan and 10%-23% in European Union states.¹³ However, U.S. manufacturers made very little use of imported services content in exports compared to exporters in other countries. For example, 17.8% of the value of Chinese manufactured exports and 16.4% of the value of South Korean manufactured exports in 2011 comprised imported services, according to the Organisation for Economic Co-operation and Development (OECD), compared with 8.0% of the value of U.S. manufactured exports.

¹² U.S. Bureau of Labor Statistics, Occupational Employment Statistics for Warehousing and Storage, <http://data.bls.gov/oes> (accessed April 11, 2016).

¹³ OECD, Business Sector Service Jobs Sustained by Foreign Final Demand for Manufactured Goods, 2011, *OECD Science, Technology and Industry Scoreboard 2015* (accessed April 11, 2016).

Figure 8. Service-Sector Inputs into Manufacturing Exports

Service-sector value added as percentage of total value added in of manufactured exports, 2011



Source: Organisation for Economic Co-operation and Development (OECD), Trade in Value Added database, June 2015.

The figures illustrated in **Figure 8** show only the importance of services purchased by manufacturers from outside firms. One possible interpretation of these data is that U.S. manufacturers may be more vertically integrated than those in other countries and therefore less reliant on services purchased from other firms. A partial explanation is that a comparatively efficient transportation system requires U.S. exporters to spend less on purchasing transportation than their competitors in other countries: the cost of transportation and communications services came to only 5.0% of the value of U.S. manufactured exports in 2011, compared with 6.1% in Germany and 6.4% in China.¹⁴

Manufacturing Work

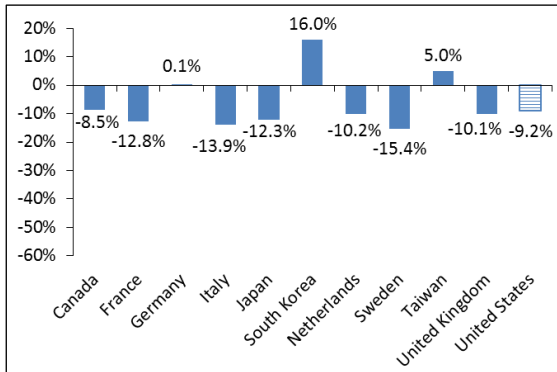
International comparisons of manufacturing employment trends are hampered by inadequate data, particularly for emerging economies. Among the top-ranking manufacturing countries, China, Brazil, and India do not report complete information on manufacturing employment at the national level. Mexico has a nationwide statistical sampling program, but due to definitional and methodological changes a consistent time series is available only since 2005.

All of the advanced economies for which data are available have experienced long-term declines in manufacturing employment. Manufacturing employment in the United States, as measured by surveys of workers (rather than surveys of establishments), fell by 9% from 2008 through 2014, despite the economic recovery that began in 2009. Canada, France, Italy, Japan, Sweden, and the United Kingdom all saw similar declines over that period (see **Figure 9** for data on selected countries). Over the 24-year period between 1990 and 2014, manufacturing employment fell by a much lower percentage in the United States than in the United Kingdom and by about the same

¹⁴ OECD, Services Value Added in Manufacturing Exports, by Type of Service, 2011, *OECD Science, Technology and Industry Scoreboard 2015* (accessed April 11, 2016).

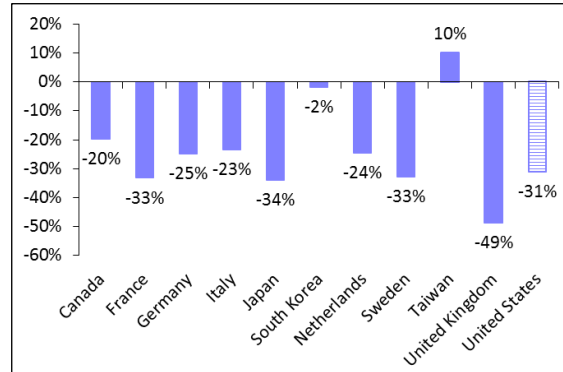
percentage as in France, Japan, and Sweden. Other high-income economies, including the Netherlands, Italy, and Germany, also saw large declines in manufacturing employment over that period (see **Figure 10**). These figures indicate that the diminished importance of manufacturing as a source of jobs is not limited to the United States.¹⁵

Figure 9. Manufacturing Employment
Percentage change, 2008-2014



Source: The Conference Board, “International Comparisons of Annual Labor Force Statistics,” 2014, Table I-18.

Figure 10. Manufacturing Employment
Percentage change, 1990-2014



Source: The Conference Board, “International Comparisons of Annual Labor Force Statistics,” 2014, Table I-18.

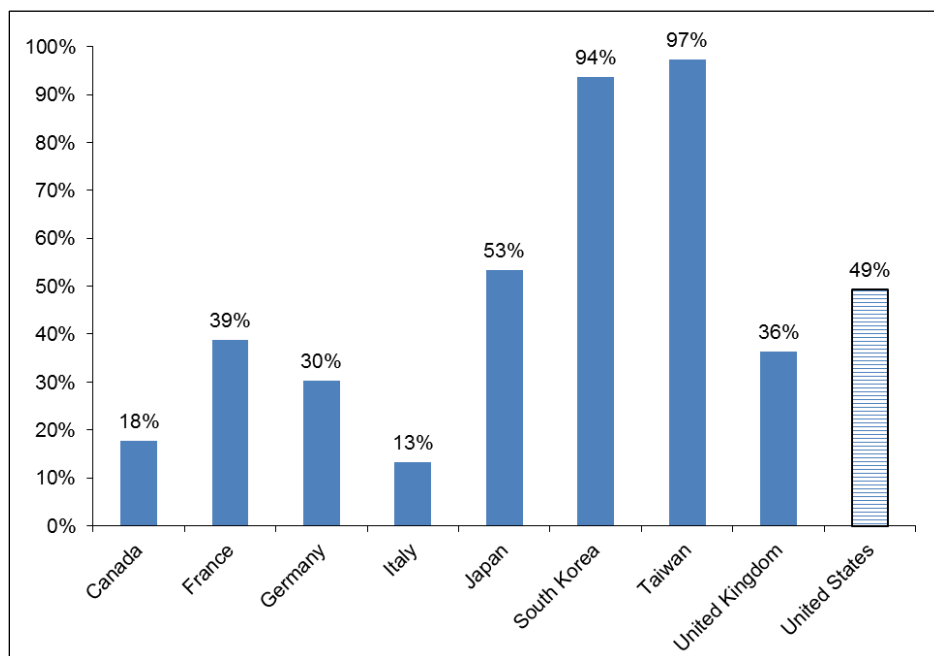
The international comparison of manufacturing employment is somewhat different if viewed in terms of hours worked rather than by the number of workers. By this metric, Germany experienced a similar decline in manufacturing work to that of the United States over the 1990-2014 period, while the declines in France, Japan, and the United Kingdom were larger. The timing differed among countries, with manufacturing work hours falling faster in other countries during the 1990s and the United States experiencing a comparatively steep drop in the 2000-2010 period.¹⁶

The United States is not unique in experiencing a decline in the need for labor in the manufacturing sector. Even in South Korea and Taiwan, where manufacturing output has expanded far more rapidly than in the United States, factories require fewer total hours of labor than was formerly the case. The reduced demand for labor is directly related to improved labor productivity. Manufacturing labor productivity, measured in terms of output per worker hour, has increased much more rapidly in the United States than in Canada and the large European economies, and nearly as much as in Japan (see **Figure 11**). However, U.S. productivity growth has been much slower than that in South Korea and Taiwan.

¹⁵ These data were compiled by the Conference Board International Labor Comparisons Program.

¹⁶ Conference Board International Labor Comparisons Program, “International Comparisons of Manufacturing Productivity & Unit Labor Cost Trends, 2015,” <http://www.conference-board.org/ilcprogram/> (accessed April 18, 2016).

Figure 11. Real Output per Labor Hour in Manufacturing
Percentage change, 2002-2014



Source: The Conference Board, International Labor Comparisons Program, "International Comparisons of Manufacturing Productivity and Unit Labor Cost Trends, 2015."

The strong improvement in U.S. labor productivity in manufacturing relative to other countries has several causes. One is U.S. manufacturers' large investments in automation, which have eliminated many routine assembly jobs; only two in five workers in U.S. manufacturing establishments are now directly engaged in production. A related factor is the rapid increase in education levels among U.S. manufacturing workers, some 29% of whom possess college degrees.¹⁷ U.S. labor productivity grew particularly fast in computer, electronic, and optical products (up 394% between 2002 and 2013), motor vehicles (up 86%), textiles, apparel, and allied products (up 76%), and basic metals (up 55%). All of these sectors experienced very steep declines in employment over that period. A third cause of improvement in average manufacturing productivity is the rapid growth of certain sectors in which labor productivity is extremely high, such as electronic instrument manufacturing and aircraft manufacturing. These sectors have seen large increases in output over the past decade without significant increases in employment.

In part, however, the measured improvement in labor productivity in U.S. manufacturing also reflects the rapid shrinkage of low-productivity manufacturing activities since 2000. During this period, many manufacturers moved routine assembly work abroad, either to their own factories or to those of contract suppliers. For example, the reduction of U.S. import barriers encouraged apparel imports and led to a reduction of domestic capacity in the low-productivity apparel industry. As U.S. plants with below-average productivity closed, average productivity of the remaining manufacturing plants necessarily increased even in the absence of productivity improvements.¹⁸ Similarly, the very rapid increases in manufacturing labor productivity in South

¹⁷ On occupations and education within the manufacturing sector, see CRS Report R41898, *Job Creation in the Manufacturing Revival*, by (name redacted)

¹⁸ In general, the manufacturing industries with the lowest productivity growth are those in which it has proven most (continued...)

Korea and Taiwan likely reflect the closure of low-productivity manufacturing as well as the expansion of capital-intensive manufacturing.

At the other extreme, Italy, which has seen a comparatively small drop in manufacturing employment, experienced by far the smallest increase in output per hour worked of any of the wealthy countries for which data are available, along with a decline in manufacturing value added. In combination, these figures suggest that restructuring low-productivity operations has been a challenge for Italian manufacturers.

Average compensation per employee in U.S. manufacturing was \$37.71 per hour in 2015. This figure was higher than average manufacturing compensation in 26 of 34 other countries for which the Conference Board, a private research organization, collected data. Due largely to the strength of the dollar since the second half of 2014, most other countries have seen average compensation per hour expressed in U.S. dollar terms decline. Over a longer time frame, labor costs in most European countries have risen relative to those in the United States (see **Table 1**).

Table 1. Hourly Compensation Costs in Manufacturing

U.S. dollar basis, 2015

	Direct Pay	Total Compensation Costs	Change Relative to United States, 2000-2015 (percentage points)
Brazil	\$5.53	\$7.97	22
Canada	\$24.64	\$30.94	12
France	\$26.17	\$37.59	17
Germany	\$33.24	\$42.42	12
Italy	\$22.61	\$31.48	25
Japan	\$19.33	\$23.60	-6
South Korea	\$18.20	\$22.68	56
Mexico	\$4.14	\$5.90	-17
Taiwan	\$8.07	\$9.51	-8
United Kingdom	\$26.87	\$31.44	6
United States	\$28.77	\$37.71	NA

Source: The Conference Board, “International Comparisons of Hourly Compensation Costs in Manufacturing and Submanufacturing Industries,” April 12, 2016.

Notes: “Direct Pay” includes vacation pay, bonus payments, and employer contributions to employees’ savings funds. “Total Compensation Costs” additionally includes pensions, disability insurance, sick leave, health insurance, severance pay, other social insurance expenditures, and taxes on payrolls or employment. “Change in Compensation Costs Relative to United States” incorporates the effects of exchange-rate changes. Data are preliminary.

(...continued)

difficult to automate production processes to increase output per worker hour. The apparel and footwear industries are notable in this respect. For detailed data, see Bureau of Labor Statistics, “Multifactor productivity trends for detailed industries, 2013,” September 29, 2015, <http://www.bls.gov/news.release/prin3.nr0.htm>.

Accurate nationwide data on manufacturing compensation costs in China and India are not available. The Conference Board estimates that average manufacturing compensation in China was \$4.12 per hour in 2013, having risen 240%, in U.S. dollars, between 2007 and 2013. With respect to India, the Conference Board estimates average hourly compensation in formal manufacturing establishments to have been \$1.59 in 2012, the most recent year for which data are available, but cautions that this figure overstates average compensation as it pertains to only about 20% of the country’s manufacturing workers. Because data from China and India are not comparable to those from other countries, they are not included in **Table 1**.¹⁹

The data on average hourly compensation costs can be misleading, as they are not adjusted for differences in the industrial mix. In most countries, including the United States, labor costs vary greatly among industries; the average hourly wage of production workers at U.S. sawmills is around \$17.50, whereas the average in aircraft manufacturing exceeds \$38.

The most recent U.S. data on comparative compensation costs within individual industries, from 2014, show U.S. costs, including wages and benefits, to be lower than those in the major economies of continental Europe, although well above those in emerging economies (see **Table 2**). These figures have not been adjusted to account for the appreciation of the U.S. dollar since 2014. The more detailed data that would be required to correct for national differences in the products manufactured by these industries are not available.

Table 2. Hourly Compensation Costs in Selected Manufacturing Industries

U.S. dollar basis, 2014

	Paper	Textiles	Chemicals	Machinery	Motor Vehicles
Brazil	\$12.38	\$6.75	\$17.91	\$13.66	\$16.92
France	\$44.24	\$35.59	\$56.38	\$46.87	\$47.10
Germany	\$45.70	\$35.18	\$61.92	\$53.73	\$63.59
Italy	\$35.51	\$33.52	\$46.56	\$40.65	\$41.64
South Korea	\$18.38	\$14.93	\$28.80	\$21.28	\$27.91
Mexico	\$5.68	\$4.11	\$10.50	\$7.11	\$8.10
Taiwan	\$7.60	\$7.54	NA	NA	\$9.90
United Kingdom	\$31.87	\$25.64	\$36.63	\$35.00	\$38.12
United States	\$37.89	\$24.09	\$42.80	\$40.02	\$38.09

Source: The Conference Board, “International Comparisons of Hourly Compensation Costs in Manufacturing and Submanufacturing Industries,” April 12, 2016.

¹⁹ For information on issues related to measurement of compensation in China and India, see the Conference Board, “International Comparisons of Hourly Compensation Costs in Manufacturing, 2015 – China and India,” April 12, 2016, <https://www.conference-board.org/ilcprogram/index.cfm?id=38270>.

Technology and Research in Manufacturing

High-technology manufacturing has been a particular focus of public-policy concern for many years. There is no standard definition of high-tech manufacturing, but commentators have long asserted that high-technology production has especially beneficial economic spillovers.²⁰ Although definitions of “high-tech industry” vary, the OECD considers that manufacturing of pharmaceuticals; office, accounting, and computing machinery; radio, television, and communications equipment; medical, precision, and optical instruments; and aircraft and spacecraft is particularly technology-intensive, based on those industries’ research and development (R&D) expenditures and on the amount of R&D embodied in their products.²¹ It is important to note in this context that some industries that may have a considerable technological component, such as automobile and machinery manufacturing, are not considered high-technology industries by the OECD.

The United States derives a greater share of manufacturing value added from high-tech industries than is the case in most other OECD member countries. Moreover, the share of value added represented by high-technology sectors has been rising in the United States, whereas it has been stable or declining in many other countries.²²

Manufacturers in the United States spend far more on research than those in any other country save China (see **Figure 12**).²³ Adjusted for differences in purchasing power, Chinese manufacturers’ R&D spending is roughly the same as that of manufacturers in the United States.

Manufacturing R&D in the United States and other high-income economies has grown at a slow pace since the international financial crisis of 2008. R&D spending by manufacturers has been growing much more quickly in some Asian economies, notably China, South Korea, and Taiwan (see **Figure 13**). In some countries, including Canada, Mexico, and Spain, manufacturers’ R&D spending has declined after adjusting for inflation.

Manufacturers have been responsible for approximately 70% of all R&D conducted by businesses in the United States in recent years. This is far lower than in Germany, Japan, South Korea, and China, where manufacturers account for 85%-90% of all business-financed R&D. Conversely, the service sector is relatively more important in undertaking R&D in the United States than in many other countries. The most notable exception is the United Kingdom, where service companies account for three-fifths of all business R&D spending.²⁴

²⁰ For a recent statement of this view, see Gregory Tasse, “Competing in Advanced Manufacturing: The Need for Improved Growth Models and Policies,” *Journal of Economic Perspectives*, vol. 28 (2014), p. 29. Similar arguments were made in earlier decades in Stephen S. Cohen and John Zysman, *Manufacturing Matters: The Myth of the Post-Industrial Economy* (New York, 1987), p. 106, and Lester Thurow, *Head to Head: The Coming Economic Battle Among Japan, Europe, and America* (New York, 1992), pp. 45-51.

²¹ These sectors correspond to United Nations International Standard Industrial Classifications 2423, 30, 32, 33, and 353. For details, see OECD, “ISIC Rev. 3 Technology Intensity Definition,” July 7, 2011, p. 1, <http://www.oecd.org/dataoecd/43/41/48350231.pdf>.

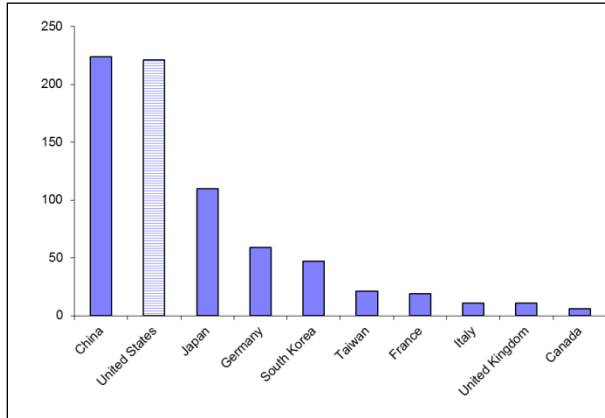
²² Based on CRS analysis of OECD Structural Analysis Database, “Research and development expenditure in industry – ISIC Rev. 4,” accessed April 13, 2016.

²³ These figures include expenditures by manufacturers, whatever the original source of the funds.

²⁴ OECD, Science, Technology and R&D Statistics, “Business enterprise R-D expenditure by industry,” (accessed April 25, 2016).

Figure 12. R&D in Manufacturing, 2013

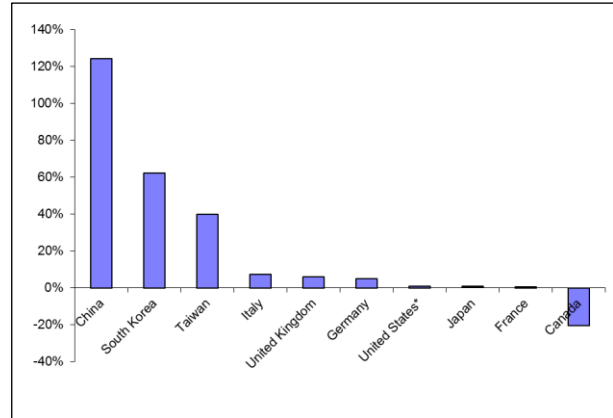
Billions of U.S. dollars at purchasing power parity



Source: OECD STAN R&D database, “Research and development expenditures by industry,” Rev. 4.

Figure 13. Growth in Manufacturing R&D

Change in 2010 dollars at constant purchasing power parity, 2008-2013



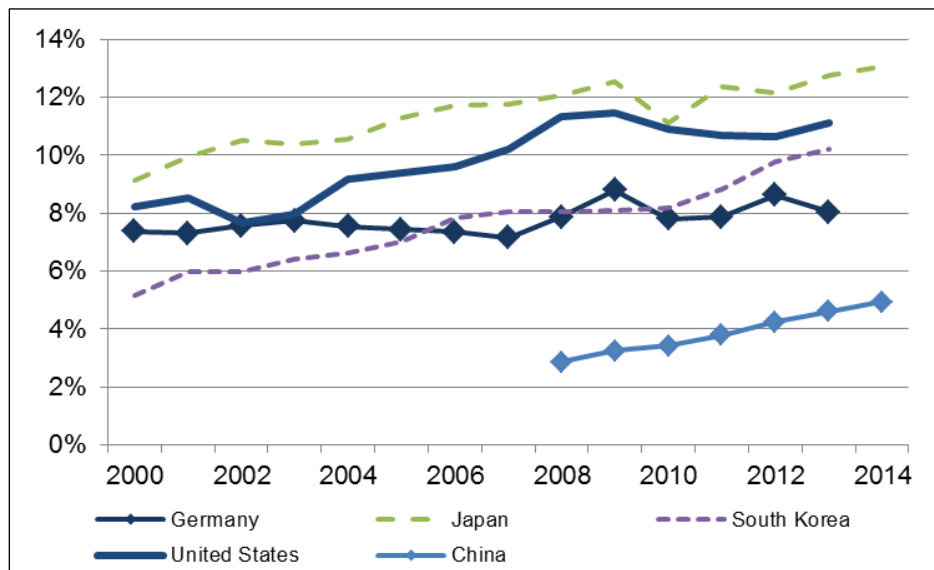
Source: OECD STAN R&D database, “Research and development expenditures by industry,” Rev. 4.

Note: Data for Canada are for 2009-2013.

The research intensity of U.S. manufacturing has increased significantly in recent years, as shown by data indicating that R&D accounts for a growing share of manufacturing value added. In 2000, U.S. manufacturers spent 8% of sales on R&D, a figure that rose into the 11% range starting in 2008. A similar trend is evident in most other countries with substantial R&D in manufacturing. However, U.S. manufacturers still spend more on R&D, relative to value added, than those in other large manufacturing countries, with the exception of Japan (see **Figure 14**).

Figure 14. Manufacturing R&D as Share of Manufacturing Value Added

Local currency basis



Source: CRS, from OECD STAN R&D expenditures in industry and Value added and its components by activity-ISC Rev. 4; United Nations National Accounts Main Aggregates Database (accessed April 18, 2016).

One reason for national differences in R&D intensity is variation in the composition of the manufacturing sector. Industries such as aircraft, spacecraft, and electronic instrument manufacturing are among the most research-intensive in every country, and, all other things equal, countries in which these sectors are relatively large may be expected to have greater R&D intensity in manufacturing than countries in which they are less important.

Table 3 confirms that manufacturers' R&D spending is targeted quite differently across countries. In general, a very large proportion of U.S. manufacturers' R&D takes place in high-technology sectors, particularly pharmaceutical, electronics, and aircraft manufacturing, whereas in most other countries save South Korea, a far greater proportion of manufacturers' R&D outlays occur in medium-technology sectors such as motor vehicle and machinery manufacturing.

Table 3. Manufacturers' R&D Spending by Sector, 2013

Percentage of total R&D spending by manufacturers

Country	Chemicals	Pharmaceuticals	Computers, Electronics, Optical	Motor Vehicles	Other Transport Equipment
China	9.1%	4.4%	17.6%	8.6%	4.7%
France	6.1%	5.2%	23.5%	12.2%	21.7%
Germany	7.3%	8.8%	15.9%	37.3%	4.4%
Italy	4.4%	6.6%	15.7%	15.7%	13.6%
Japan	6.7%	12.8%	25.9%	27.0%	0.7%
South Korea	6.4%	2.6%	58.2%	12.8%	1.8%
United Kingdom	4.9%	6.3%	13.9%	17.7%	16.5%
United States	4.2%	23.7%	30.3%	7.6%	13.2%

Source: OECD, Research and development expenditure in industry-*ISIC Rev. 4* (accessed April 19, 2016).

Note: Not all manufacturing sectors are included.

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