TESTIMONY OF

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"WHERE THE JOBS ARE: EMPLOYMENT TRENDS AND ANALYSIS"

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Chairman Bono Mack, Ranking Member Butterfield and other distinguished Members of the Subcommittee, good morning and thank you for the opportunity to testify on "where the jobs are".

I'm Hal Sirkin, a Senior Partner and Managing Director at The Boston Consulting Group. BCG is a global management consultancy, with almost 5,000 professionals based in 42 countries.

While many negative comments have been made about the state of US manufacturing, I would like to paraphrase, Mark Twain and say "The Death of US Manufacturing has been greatly exaggerated".

We've heard pronouncements of the death of US manufacturing before. In the 1970s conventional wisdom said, Japan, Inc, with its low cost cars, televisions and other manufactured goods was going to wipe out US manufacturing. Americans would be farmers and bankers. Children were sent to schools to learn the language of their new masters.

But that didn't happen.

In the 1990s, conventional wisdom also predicted that the Asian Tigers (from Hong Kong, Singapore, South Korea and Taiwan) were going to wipe out US manufacturing. But that didn't happen either.

And in the past decade, conventional wisdom has said the China was going to wipe out US manufacturing.

And that's not going to happen either.

Why? Our economy is designed to respond quickly to threats, unlike any other economy. We are not a country that protects, we compete. Our internal competition is fierce – companies are forced to be competitive or die.

And the results of all this competition are breath taking. The US produces 2.5 times as much manufacturing value added then we did in 1972. And we do it with 30% less labor. We are among the most productive economies in the world far more productive than Germany and Japan.

Each time we are attacked, we don't give up. We respond, we adapt and we thrive. It is what we are as a nation.

The threat from China is large – a nation of 1.4 billion people with a non-democratically elected government that can move fast and subsidize industries. And when China entered the WTO in 2001, wages in China were only 58 cents per hour on average. At that rate, outsourcing to China was a no-brainer decision for companies in many industries.

But the economics of China are rapidly changing:

Wages are rising at about 15-20% per year.

The Yuan, a controlled currency has been rising at 4% per year and most economists believe would be rising even faster if it wasn't controlled.

While productivity in China is rising at 7% - an incredible pace for any economy, it is swamped by the wage and Yuan increases.

And today, the average US worker is 3.4 times as productive as the average Chinese worker.

The tide is turning in favor of the US. China is just getting more expensive. Companies that went to China for ultra-cheap wages are finding it not so cheap. And they are beginning to rethink their decisions.

We project that sometime around 2015, we will reach a tipping point for seven key categories of goods where the cost to produce in China will be just 10% lower than in the US (rather than the 20%+ lower that companies have gotten accustomed to).

While 10% is a very important difference to companies, when you include all the costs associated with producing in China to serve the US market like the transportation to ship goods, the inventory costs for the 2-3 month of shipping, the risk of obsolescence of goods as they are transported, the risk of intellectual capital theft, the country risk, and just being 5,000 to 7,000 miles from the customer and not understanding their needs, the 10% differential disappears.

These seven categories include: Computers and Electronics, Appliances and Electrical Equipment, Transportation Goods, Plastics and Rubber, Machinery, Furniture and Fabricated Metals. These account for 2/3 of the $300 billion we import from China each year.

In June we estimated that the impact, given the manufacturing multiplier would be 2-3 million jobs over the decade.

Given what we've seen since June, we believe that our estimate is conservative because we've seen far more re-shoring from China already than our models predicted. Companies like NCR, Ford, Coleman, Nat Labs and many others have re-shored jobs. We are also seeing companies from Japan and Europe recognizing that they can produce much more economically in the US for consumption in the US. And many of them are using or are considering using the US as an export base – companies like Siemens for power turbines, Rolls-Royce for Jet engine parts and Toyota are seeing the US as a low cost manufacturing location.

Once again, our amazing economy is responding. Once again manufacturing is growing in the US because of our underlying advantages. While this is just taking hold now, government policy can help accelerate the trend. Whether it is providing funds to train American workers, reforming our tax system or finding ways to level the playing field with our competitors, our government can make a difference.

Creating more good paying jobs is something that all Americans whether they are Democrats, Republicans or Independents can agree on. We all need to work together to create good jobs for our children and their children and ensure that our economy remains strong for generations to come.

Thank you.