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Lawmakers - check your research

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The Milken Institute recently released a report, "Manufacturing 2.0: A More Prosperous California," which paints, at best, a grim picture of California's manufacturing business environment. To quote, "California is losing a battle to attract manufacturing jobs, a critical economic growth engine." The report then goes on to estimate the damage to the state's economy caused by this failure.

This may seem reasonable, given the ongoing discussion of the state's poor business climate. Unfortunately, the report does not accurately reflect the state of manufacturing in California. Instead, the methods used to prepare the analysis skew the results negatively by providing an incomplete and unbalanced snapshot of industry trends.

The report, which received funding from the California Manufacturing and Technology Association, states that since 2000 California has lost 21 percent of its manufacturing workforce, compared with 13 percent for a peer group of states, a difference it attributes to differences in state policy.

But the report selected a "peer" group of comparative states that have a faster pace of growth, a sure way to steer data results toward a certain outcome. As the old saying in finance goes - you're only as good as your choice of benchmark.

Many of the states chosen don't fit what one would reasonably consider peers of California. For example, Arizona has a tiny manufacturing industry and Indiana is driven largely by automobiles and pharmaceuticals. Neither is true in California where manufacturing is much larger relative to the overall economy and quite diverse in the range of industries represented.

The report stacks the deck against California even further by using 2000 as the base year of comparison - the year the state was at the peak of the tech bubble and manufacturing employment was swollen to an unsustainable peak. If we take a step back and consider trends in manufacturing from a longer perspective, then we come up with a much different picture:

-- Between 1997 and 2008, manufacturing output in the United States increased by 30 percent in real terms, according to the U.S. Bureau of Economic Analysis. Over the same period, manufacturing output increased by 90 percent in California - three times the national average. Some of this increase was driven by productivity gains in information technology. But even without, manufacturing output in California has outperformed the nation as a whole.

-- As for jobs, manufacturing employment in California fell by 15 percent from 1994 to 2008, and by 21 percent in the United States overall, according to the Bureau of Labor Statistics. And manufacturing employment in the current economic downturn has held up much better in California than in the nation overall. Year over year, California has lost 8.5 percent of its manufacturing jobs, while the nation overall has lost 11.5 percent. California's record is also better than four of the seven states in the Milken Institute study's chosen peer group.

This is not to say that everything is fine with the state's economy or that we don't need to worry about business climate issues. But government, like the economy overall, must use its scarce resources effectively. This means we must set policy priorities based on real issues not skewed statistics. This is particularly true in these trying times.

Industry-funded research is a necessary part of the economic landscape, as few other entities have the interest or financial ability to support such efforts. Our firm conducts research for the state, local governments, banks, hedge funds and other companies and organizations, and relies on such funding. But research that distorts or selectively uses data to achieve a specific outcome has for too long been the norm in public policy debates.

It is time to put honesty and integrity back into the process by not allowing distortions to end up in the public record - where they soon become the conventional, but incorrect, wisdom.

Before policymakers consider a report from any group - ours included - they should require the research to be vetted through a rigorous and truthful peer-review process to make sure we all have the real facts.

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