

Robert H. Jeffrey's Kit-Kat Club essay presented February 17, 2009

Manufacturing Matters: A Second Look

As perhaps a half dozen of you here tonight may vaguely recall, I gave a Kit Kat essay almost twenty years ago entitled "Manufacturing Matters," which I'd largely derived from a 1987 book of the same title, and a sub-title, "The *Myth* of the Post-Industrial Economy," with "myth" being in italics.

The "myth" that the authors were exposing was the sugar-coated rationale that just as America had shifted a hundred or so years earlier from an agrarian to an industrial economy, while achieving at the same time a huge increase in its standard of living, so could we now expect to migrate naturally and painlessly from a largely manufacturing economy to a service-based, high-tech, "post-industrial," smokeless nirvana, where almost no one gets their fingernails dirty. I began the essay by quoting from the first paragraph in the book:

"Manufacturing matters mightily to the wealth and power of the United States and to our ability to sustain the kind of open society that we've come to take for granted. If we want to stay on top, we can't just shift out of manufacturing and into services as [the soothsayers] would [so soothingly] have it.

"[But neither] can we [with tariffs and trade restrictions] establish a long-term preserve around our traditional blue-collar jobs and outmoded plants. **American competitiveness in the international economy is critical to long-term domestic prosperity, social justice, international leadership, and world order....**

"If the United States is to remain a wealthy and powerful economy [and I'm still quoting], American manufacturing must automate, not emigrate, [because] the difference is decisive. **There's absolutely no way that we can lose control and mastery of manufacturing and expect to retain the high-wage service jobs that we're [blissfully] told will replace manufacturing,** [because so much of] service employment is linked [directly or indirectly] to manufacturing.... Lose manufacturing

and you will lose—not gain—those high wage, [high tech], service jobs.”

And I’m reminded from my own experience at Jeffrey that when manufacturing goes, you’re also losing a lot of related modest wage, low tech, white collar jobs like accounts payable clerks, the plant manger’s secretary, and the nurses in the factory first-aid station.

To highlight the criticality of what the “Manufacturing Matters” authors were saying, I then jumped to the last two paragraphs in the book:

“There’s a spectrum of possible economic futures open to America. At one end lies an internationally competitive U.S. economy in which highly productive, well-educated workers use new technologies...to produce a broad range of high value-added goods and services, [thereby earning] the high wages necessary to sustain both the standard of living to which Americans have grown accustomed, and [and here’s the critical point] **the open society that has been so closely linked with a strong and open economy.**” [We’ll come back to this very important point shortly.]

“[But] at the other end of the spectrum [say the authors] lies the real danger of a **competitively weakened economy in which a small minority of high-skilled, [high wage] jobs co-exists with a majority of low-skilled, low-wage jobs and massive unemployment.** Living standards—perhaps along with social equality and political democracy—would deteriorate rapidly as more and more value added [is] offshored, and automation [reduces] the labor content of the [few] remaining U.S.-made goods and services.”

Following these quotations from the book, I added this thought: “If there’s a point in the authors’ worrisome “Manufacturing Matters” prognosis that needs underscoring, it’s that **the consequence of losing manufacturing jobs isn’t just economic; it’s also political [and societal].**

That manufacturing matters to the wealth and power of the United States is the obvious the economic consequence, the one we hear and worry about the most; **but the political [and societal] consequence, which we mostly don’t even think about, is the far more important and the vastly more worrisome.**

Alexis de Tocqueville opined in the 1830s after his visit to America that **democracy is vitally dependent on the presence of a strong and politically dominant middle class**, which, when you stop to think about it, makes eminent good sense. With just a few rich people at the top, and a lot of poor people at the bottom, and not much in between, democracy simply won't work for very long—with perhaps Zimbabwe and maybe North Korea being current day cases in point.

But what we largely weren't understanding 20 years ago, and, as far as I can tell, we still aren't understanding today is the reality, be it in America or Europe or wherever, that **the so-called middle class is spawned to a major extent by the existence of manufacturing and manufacturing-related jobs**—as our friends today in places like Michigan and Toledo would now loudly and painfully attest.

Thomas Friedman, in his now oft-cited “The World Is Flat” book, affirmed this same important point. “The problem for America,” he wrote, “is in the middle.... The American economy used to look like a bell curve, with a big bulge in the middle. And that bulge of middle-class jobs has been the foundation, not only of our economic stability, but also of our political stability. [“But.” says Friedman] “democracy cannot be stable without a broad and deep middle class. **We cannot afford to move from a bell-curve economy to a barbell economy—with a small high end and a big low end and nothing in the middle.**”

Friedman goes on to say that: **“America’s secret ‘sauce’**—i.e., the mix of it’s institutions, its laws, and its cultural norms—has produced a level of trust, innovation, and collaboration that has enabled us to keep renewing our economy and growing our standard of living.

There’s nothing about the flat world—nothing—that Americans can’t handle,” says Friedman,**“as long as we roll up our sleeves, educate our young people..., and keep enriching our ‘sauce’!”**

So are we doing that?, asks Friedman, and he replies **“The answer sadly is no!”** And I would agree. We’re not rolling up our sleeves, and we’re certainly not doing a good job in educating much of our youth.

So....., having now proposed that not only is America's economic prosperity in danger from the loss of manufacturing, but, more worrisomely, *so may our societal/political stability also be in danger*, you, my fellow Kit-Katters, are presumably hoping that I'm now going to come up with some sort of a happy ending to this gloomy prognosis. And I wish I were, but I'm not.

The tsunami that's driving these sea changes in our society is, of course, what we've come to call **globalization**, a term which, if Friedman didn't coin it, he certainly popularized it. Unfortunately, in my view, I think Friedman is much too ambivalent about America's ability to cope with globalization, and it's his positive—**yes we can cope**—comments that seem to be quoted most often. But here are some of his other quotes that support his statement that **coping “is going to be very, very hard.”**

- “It's now possible for more people than ever to collaborate in real time—with more other people—on more different kinds of work—from more different corners of the planet—and on a more equal footing than at any time in the history of the world—using computers, e-mail, fiber-optic networks, tele-conferencing, and dynamic new software.”
- “Just as the interstate highway system that was built in the 1950s flattened the United States, ...the laying of global fibre optic networks flattened the developed world.”
- “There's no bigger flattener [referring to Google] than the idea of making all the world's knowledge, or even just a big chunk of it, available to anyone and everyone, anytime, anywhere.”
- “Three billion people [referring to China, India, Russia, Eastern Europe, Latin America and Central Asia], who had been locked out of the old playing field have now suddenly found themselves liberated to plug and play with everyone else.”
- “In a flat world, one person's economic liberation could be another's unemployment.” [And instead of “could be,” I wish he'd said “**is likely to be** another's unemployment.”]
- “If you're an American, you'd better be good at the touchy-feely stuff, because

anything that can be digitized can be outsourced to either the smartest or the cheapest producer, or both.”

- “The debate about work going to India, China and Mexico is actually no different from the debate once held about...shoe work and textile work leaving Massachusetts.... Work gets done where it can be done most effectively and efficiently [to which I would add that ‘effectively’ and ‘efficiently’ are simply polite adverbs that translate in plain English to mean **‘most cheaply’**].”
- If Americans and Europeans want to benefit from the flattening of the world and the inter-connecting of all the markets and knowledge centers, they will have to run at least as fast as the fastest lion—and I suspect that lion will be China, **and I suspect it will be pretty damn fast!**”

Friedman correctly notes that empires, be they Greek, Persian, Roman, Napoleonic, British, or the American one that arguably started around the turn of the 20th century, don’t last forever, and the same can be said of corporate empires like the East India Company—or the original AT&T—or General Motors.

- He says: ”There is something about post-World War II America that reminds me of **the classic wealthy family that by the third generation starts to squander its wealth**” [to which I would add by **working less hard, taking fewer risks**, and, most particularly, by **failing to watch—in the rear view mirror—the competition catching up**].
- ”Lucky for us,” says Friedman, “the United States was the only economy standing after World War II, and we had no serious competition for years. That gave us a head of steam, but it also **bred a sense of entitlement and a culture of complacency**, i.e., a pronounced tendency in recent years to extol consumption over hard work..., and immediate gratification over long-term thinking and sacrifice.

•The truth is [says Friedman] that **we're now in a crisis**, but it is a crisis that's unfolding very quietly, and this quiet crisis involves the steady erosion of America's scientific and engineering base, which has long been the source of American innovation and our rising standard of living."

My criticism of Friedman is that on one page he says "the world is flat" and that the resulting globalization will necessitate great changes for America; and then on the next page he seems to be saying "**but we'll figure it out.**" I'm not so sanguine, and I don't think the American people should be either.

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Last September while visiting Kit-Katter, Don Shackelford, on Nantucket, I saw on their living room table a book entitled "The War for Wealth" with a sub-title "The True Story of Globalization, Or Why the Flat World Is Broken." The author is Gabor Steingart, who's a senior correspondent for *Der Spiegel* in Washington.

Early in the book under the suggestive chapter heading, "The '**America, Don't Move**' Party," Steingart writes the following paragraph, which sets the stage for his book:

•"Many roads lead to the demise of a nation. Self-deception is one of them. The belief in the **immortality of the present** [which is simply a more elegant way of saying that **nothing changes**] and the comfortable feeling of being one of history's victors [i.e., "**we're #1!**"] is in fact a sign of an apocalyptic mood. It is a form of optimism that acts like a neurotoxin that clouds consciousness, artificially brightens the mood, and only recognizes a challenge in a merely schematic form, if at all."

And Steingart continues:

•"...those who hope to be the winners of the future must be able to divorce themselves from their past. **Winning the future is simply a constant process of reevaluating, regrouping, and letting go.**"

But I would suggest that **it's very hard to reevaluate, regroup, and let go when your past has been a glorious one**, and you still seem to be number one in whatever league you're playing in. Just ask your old friends at General Motors, or NCR, or Lazarus, or, if we could, my grandfather who watched Jeffrey slip from #1 to #4 or 5 in the underground coal mining machinery league in just ten years time in the late '40s and '50s.

When you think about it, **there's a huge competitive advantage in not being #1**, and that's simply because in driving your car, you're looking mostly forward and, in so doing, you're also seeing in front of you what your more successful competitors are doing—assuming, of course, that you're not so far back in the race that your competitors are now out of sight!

The old saying that rich families tend to go “from shirt-sleeves to shirt-sleeves in three generations” may or may not be statistically correct, but the reality is that **when you get very comfortable there's an understandable tendency to work less hard and take fewer risks**, and to forget that **you'd better be also looking out of your rear-view mirror to see who's catching up trying to take your place.**

What Steingart is telling us—and correctly in my view— is **that rich nations are no different from successful rich companies and rich families:**

- ”An entire society [says Steingart] that loves its status quo so much that it sees its own change as an underhanded attack on its way of life will not be able to hold on to its spot in the ranking of nations. Those who are **capable of change** continue on, while those who **stand still** lose [both] political power and economic prosperity....”
- ”It is difficult to say [still quoting] whether the United States has already started down this path, but it's clear that a dangerous situation has developed. Lasting industrial [i.e., manufacturing] decline, growing balance-of-trade deficits, and acting as the world's largest debtor present tremendous challenges for any nation, even in normal times.

But in light of a rival [referring to China] that has no debt, and in fact has huge surpluses, [and] industries that are flourishing and rushing from one export success to the next, the challenge to us quickly becomes a threat. Even more dangerous than the situation is the mood. **In the West, a culture of ignorance and avoidance has developed, resulting in a failure of leaders to accurately assess the situation.**”

But—skipping over the fact that since Steingart wrote what I’ve just quoted, China has developed its own serious problems— let’s ponder now on that last statement about **a failure of leaders to accurately assess the situation**. And I wish I could make my next point without sounding like some sort of dangerous revolutionary. Here’s the scary thought that I want to make:

In a democracy like ours, and presumably those in Europe, and in much of the old British empire, **how can leaders— —who accurately assess the increasing worrisome situation resulting from globalization— —be elected?**

Politicians understand that bad news doesn’t sell well with voters, particularly when the bad news is that, one, **many of you are going to be poorer to one degree or another than you are today**, and, two, that the only mitigation therefor is to **work and study harder**, while at the same time adjusting your expectations and figuring out **how to be happy with less**. But how do you get elected—or stay elected—with messages like that?

I think it’s fairly axiomatic, be it in politics, or businesses, or professional athletic teams, that, with few exceptions, **leadership can only bring about great change when the current situation is dire**, with “dire” meaning, according to Webster: “arousing terror or causing extreme distress.”

Conceivably, and certainly hopefully, the conjunction, of what may be a very serious worldwide economic situation with a very articulate and hopefully thoughtful leader in the White House, may serve to reduce the arrogance —**the “We’re #1 attitude!**—that tends to blind us from seeing that **we do need to make some changes in our modus operandi**, hopefully to avoid slipping too far down the prosperity ladder, but, perhaps more importantly, **to help us adapt to being not quite so well off in the future**.

I’ve pondered off and on for the last several weeks as to how I might end this Kit-Kat

essay on a positive or, more accurately, **a constructive note**, but I keep coming up short. Hopefully, some of you can help in the Q&A.

It's occurred to me that perhaps a study—of how the United Kingdom has apparently survived almost a century of no longer being #1 nation, and no longer having much in the way of manufacturing, which I've suggested is the backbone of the middle class society upon which a democracy depends—that such a study might provide America with some useful lessons. It's been a while since I once spent a lot of time in the U.K., but my impression is that they're somehow still doing OK, and their democracy is still intact.

And closer to home, maybe we could also learn something from Canada, whose relative losses from globalization must approximate our own. Sadly, we're not very good at learning from others, but maybe the new leadership in Washington will give it a try.

What I'm pretty sure we won't use to get everyone's attention that some big change is needed is what was once known in the coal industry as **the Island Creek approach**. In 1930s when Island Creek Coal would buy small mining camps in West Virginia and Kentucky, they'd put up a banner across the main street of the company town reading, **“GET OFF YOUR ASS AND ON YOUR FEET; NOW YOU”RE WORKING FOR ISLAND CREEK.”**

Such a message is obviously politically incorrect, but we do need the leadership to somehow get the message across to the American people that globalization and the resulting loss of manufacturing has changed the ballgame, and sooner than later **we'd better start learning to work a little harder, and to get along on a little less.**

My personal contribution to getting this message across is to send copies of this Kit-Kat essay to my thirteen grandchildren.

Thank you.

References:

“Manufacturing Matters,” Stephen Cohen and John Zysman, 1987

“The World Is Flat,” Thomas L. Friedman, 2006

“The War for Wealth,” Gabor Steingart, 2008

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