

Products made, assembled and packaged in the U.S. will fill buildings and reduce unemployment

March 28, 2012 - Spotlights

One of my favorite economists, Jeff Thredgold of TEA, focused on U.S. manufacturing in his last two weekly newsletters. The loss of manufacturing jobs in the U.S. is a very real phenomenon but there are many myths and misconceptions as well.

More than 30 years ago, the U.S. chose to move to a "service economy". In fact, today manufacturing constitutes only 9% of all jobs. This is a 39% decline since 1970, or about 1% per year. The response to this by the pundits was that the U.S. was keeping "knowledge jobs", those incorporating intellectual properties, marketing and availability of capital, which all contribute to entrepreneurial opportunities. Alas, the current challenge is that the longer this "Great Recession" goes on, the more competing nations are catching up. In addition, the huge efficiencies of computers, graphics, I-phones, etc., mean fewer and fewer jobs for the same output!

Now when you are in a prolonged recession/soft economy, it is easy to get discouraged (and stay discouraged). A big part of the challenge is that consumerism is a big piece of a "service economy". When the economy contracts, then consumer spending stumbles too. And retail jobs are not high wage jobs. So the high wage earners charge on and the low and medium wage earners struggle.

So back to manufacturing. First, the statistics, then the theories, followed by some ideas about what we in the Northeast might do about it.

In 1979, the U.S. had 19.6 million people working in manufacturing. Today, there are about 11.9 million working in manufacturing. But manufacturing in the U.S. is much more productive. One study suggests that 184 workers manufacture today what a thousand did in 1960 (Wow!). And all is not lost, last year the U.S. exported more than \$1 trillion!! And at the same time, 88.5% of goods (and services) sold in the U.S. are produced here. But services are more than two thirds of those sales. Even so, Chinese imports constitute only 2.5% of GDP, so that equates to a lot of inexpensive things. So where do we go from here?

Well, China's wages have been rising 17% per year. One study indicates that the price differential between the U.S. and China for many manufactured parts has shrunk to 5%-6%. This is one reason that some US firms are either talking about, or actually bringing, some manufacturing back to the U.S. When asked why they left China, U.S. firms responded:

1. Fed up with low-quality
2. Too much travel
3. Communication problems
4. Shipping delays
5. Rising costs (and periodic ruined shipments)

So there is a push to bring manufacturing back. And at the same time there is a pull, specifically:

1. More flexible US work rules

2. Lower labor and land costs (since 2008)

3. Higher global fuel costs

4. Financial incentives from communities and states that have significantly lowered US manufacturing base costs.

So, if the U.S. is not out of the manufacturing game globally what should we make? Well, clearly not low cost consumer goods. No, the focus should be on quality, quality, quality.

We have (globally) fallen into the trap of pricing obsolescence. Think of electric shaver's, computer printers, hand tools, etc. etc. I am 61 years old. I would love to buy one more electric razor for my lifetime. I would pay \$100 (or more) if that razor had replacement, or sharpenable, blades and screen. It sickens me to have to throw away a working razor because it has become so dull it no longer cuts whiskers, instead it pulls them out (ouch!). Ditto for desktop computer printers. Sure they cost less than \$100, but they are not repairable. If anything goes wrong, throw it out and buy a new one and toss the old one in the trash bin. Ugh! I have a 50-year-old Sears Craftsman screwdriver. It has a chunk out of the blade when it came in contact with a 440 volt wire, but it is still stronger than what we can buy today. I have bought three Craftsman screwdrivers in recent years and returned two of them. Craftsman tools - what a waste of the supreme brand.

So, for the U.S. we need to think Swiss watches and German machine tools. This concept is especially appropriate for New Hampshire and New England manufacturers - plenty of food for thought. We do not need to make billions of this or that. Thousands or tens of thousands of quality products, U.S. made, or assembled and packaged in the U.S. will fill our empty buildings and reduce our unemployment ranks. In addition, rising prosperity in South America, Eastern Europe, China, and even Africa will expand the demand for quality products.

Bill Norton, CRE, FMA, is president of Norton Asset Management, Inc., Manchester, N.H.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540