

Competitive AmericaTM

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Consumerism

The residents of the United States have become the world's largest consumers of goods and services. The savings rate dropped into the negative in the first quarter of 2005 and has not touched positive territory since. The rate of saving is an indicator of how much money is available for building or expanding business. The lack of available money domestically forces us into the international arena, limiting expansion and, consequently, job formation. Plainly put Americans are spending more than they make. To find money, we have borrowed extensively from China. At this time, we owe them 1.3 trillion dollars.

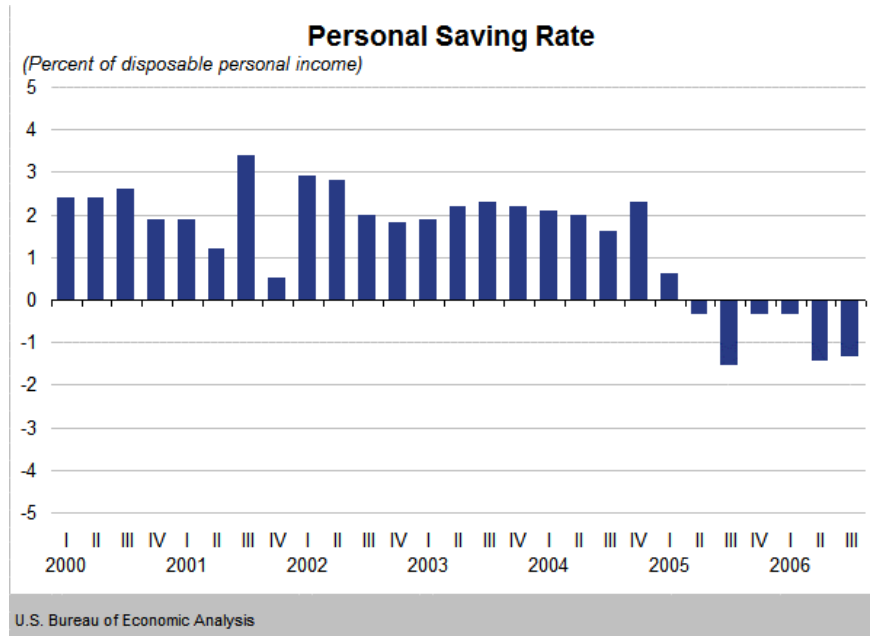
The negative saving rate is a concern for the American economy but also for other countries. China put the issue on the table with the U.S. trade delegation.

Low Prices—Double-Edged Sword

Cheap products enable consumerism but it cuts two ways. The first is the low prices afforded by the global economy. It took significant changes in business models to accomplish this change. The Wal-Mart model was originally based on Made-in-America products, but their mission has always been premised on constantly reducing prices. To accomplish this strategy, they told their suppliers to find ways to reduce costs or even to cut their margins. Once Wal-Mart accepted the premise of global sourcing, suppliers had little choice but to acquire products from the lowest-priced locations. This accelerated the outsourcing trend. Other mega retailers quickly adopted the same business model.

To reduce prices and remain competitive, manufacturing companies spread out across the globe, searching for the best way to make a profit yet stay in business. First, it was domestic value added to materials and parts. Finished products followed. Distributors increasingly turned to low-cost foreign producers. The business models largely shifted from national to global.

The same consumers who are happy to pay the lower prices resulting from global competition are unhappy at the loss of domestic jobs—perhaps their own. Yet as seen by the savings chart above, they continue to buy and do not discriminate by source.



The other cutting edge is investments. The lower prices from off shoring activities have resulted in increased value and profits for a large percentage of enterprises. The increases in stock prices have fattened the portfolios of investors. This effect creates the separation between those with savings and those without.

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