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Jobs



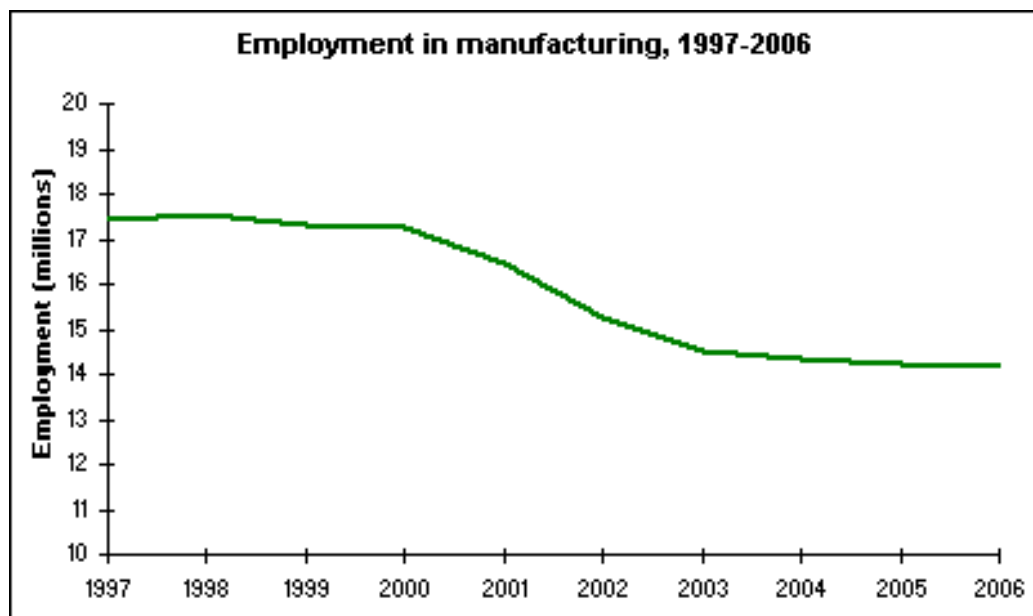
AFFINITY SYSTEMS LLC

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Jobs

The shift from a production to a service-based economy was a realized and welcomed state. Supposedly, it indicated that Americans were “stepping up a notch.” The transfer of technology and products were pervasive from the presidents of the United States to the person on the shop floor. Americans perpetrated and fueled the global economy in our rush to become a prosperous service society. Somewhere along the way, we forgot that service follows production and that production generates wealth and wealth generates power. Americans have either forgotten or chosen to ignore the lessons from history—production is power.

The rise in consumerism occurred while production dropped as America shifted to this new service sector model. The following chart shows the decline in manufacturing employment from 1997 through 2006.



Bureau of Labor Statistics
www.bls.gov

The number of manufacturing jobs has dropped precipitously in relationship to the trade imbalance. The personal saving rate was trending down until 9/11, cycled higher, and then developed the same pattern as production output and jobs. Why, given the length and severity of the three trends, has our government not stopped the transfer of our wealth into foreign economies, or slowed the transfer of vital technologies?

Following are the employment numbers from the U.S. Bureau of Labor Statistics.

[Please add (000)]

	*****2006*****			*****2007*****	
	3Q	4Q	Nov.	Dec.	Jan.
Manufacturing	14,218	14,145	14,143	14,125	14,109
Service providing	113,817	114,404	114,416	114,625	114,729

Of the three million lost jobs, about half were due to offshore activities and half to the productivity increases precipitated by automation and process improvements. Since then, American manufacturing has done well in terms of sales and profits. The number of jobs, however, has remained relatively flat because of increased productivity.

The AFL/CIO estimates that U.S. companies will outsource 406,000 jobs in 2007. Of these, 140,000 will go to Mexico and 99,000 to China. Their estimates of job loss differ from the NAM and Bureau of Labor Statistics; they estimate that 2.7 million manufacturing jobs and 850,000 professional service and information sector jobs have been lost. Since our concern is trends instead of numerical accuracy, both clearly state the large number of jobs lost and the reasons for great concern.

The U.S.-China Economic and Security Review Commission stated, "With no particular loyalty to country, industry, community, or product. This global race to the bottom line is driven by the search for ever-cheaper production costs, accessibility to expanding global markets and the flexibility that comes from diverse supply chains in an ever more volatile economic and political climate."

What the report does not say is this shift has great historical precedence. The Industrial Revolution started in England with a steam-driven energy system. America and Germany powered by electricity and a new industrial base displaced England. Industrialism flowed to Japan based on superior methodology and lower cost, and it is now shifting to China and other low-wage countries. Production has always chased the lowest cost.

The other issue is automation. This trend will continue at a rapid pace. The sophistication accomplished by the marriage of computers and production equipment has radically altered the ability to produce custom product in repetitive factories with fewer workers. There is every reason to believe this trend will continue.

These job-loss numbers are net. Foreign investment by Toyota, Honda, Mercedes Benz, and others have created jobs in the United States. It is remarkable that these companies are able to create new structures, while American executives seem unable to build competitive factory systems. Granted, foreign-based companies normally have a longer-term perspective instead of quarterly; and, yes, there are no unions. In addition, they have lower overhead

costs such as pension funds; but they also do an excellent job of governance, quality, process flexibility, continuous improvement, design, and marketing.

The New Worker

Process sophistication has changed the requirements for workers. Manufacturing jobs demand much higher training and capability. Automated processes such as robots and transfer systems are replacing the worker as a component of the process. Systems where skid loads of parts are passed from one machine to another, operator to operator, are being replaced by one-to-one processes, such as CNC multi-axis cutting equipment and manufacturing cells. These complete a part either at the machine itself, or within a group of machines run by one or more operators.

Henry Ford's production lines were based on the division of labor with a number of employees trained to perform only their job—a small part of the total. These lower-skilled jobs are the ones being lost to both the global economy and to productivity. Eventually, many would have been lost to automation. For these people, the job outlook is especially bleak. In the meantime, industry goes begging for workers that can operate the more complex computer-based equipment in use today.

It is enough to state that worldwide, nearly every country including China is losing jobs because of increased productivity and the search for lower production costs. In the final analysis, the metrics of the global competition are productivity, profits, value added, and cost, not jobs. Jobs are an effect.

Even where labor cost is below 10 percent and automation would reduce the cost of labor, the 40 percent currency exchange rate with China makes it impossible to be the low-cost producer in an American factory. It is here that labor has a very real gripe. The system is stacked against them. Beyond voting for a different mix of politicians, they can do little.

If the United States succeeds in retaining a significant industrial base, then jobs will be a result. If the manufacturing sector continues to shrink, more jobs will be lost and the middle class will continue to shrink. This will precipitate an ever-increasing effort on the part of our government to stem the flow through legislative protectionism. This type of legislation is ill conceived but also unlikely. The situation is stacked against parity or reprisals. The WTO needs to show some backbone and address the currency manipulation that is giving China a 40 percent advantage. However, here again, we have to be careful what we ask for. There would be an immediate and severe recession as the increase is passed along through price increases. We are enjoying a bubble that will eventually break, probably with severe economic consequences.

Legislation that enables domestic enterprises, promotes innovation, and empowers entrepreneurship would be useful. There needs to be a reward system for those enterprises that stay American.

The choice as a society is to take actions to retain manufacturing as a critical foundation or suffer the long-term consequences. China at every level understands the importance of production as the foundation for wealth and power. Their goal is to create jobs as fast as possible. It is one measurement of their success. The five-year plan calls for their factory system to produce greater than 40 percent of national GDP. Ours is 12 percent and dropping. As in so many cases, American leadership at all levels is ignoring the lessons of history.

By Wayne L. Staley
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