Economic Evolution and American Manufacturing

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Article:

About 1000 years ago, England was ruled by a king named Canute. By legend, Canute was a wise man who knew his limitations. When his flattering courtiers claimed that his power was so great that even the ocean would obey his command, he ordered that his throne be carried down to the water's edge. He sat there and ordered the tide not to come in, knowing full well that this particular command would go unheeded but wanting to shame his fawning courtiers.

In recent years it seems as though an economic tide has rolled across the United States. It's a sea change in the structure of the American economy, and it's most visible in the declining manufacturing sector. Many are saying we should halt, if not reverse, the decline. A recent *News & Record* editorial thinks we have to do it. Many folks in the hard-pressed textile and furniture industries think we have to do it. President Bush even created a new position for an assistant secretary of commerce for just this purpose.

But these voices are like the courtiers in the legend of King Canute, and they would have us believe that we can stem the tide of decades of change in American manufacturing. We have plenty of these courtiers. What we need is a Canute or two.

What we need to understand is that the American economy has been undergoing a long-term evolution away from manufacturing and toward services. This is what economies do. Or rather, this is what they do when they're healthy and dynamic.

An economy starts this evolutionary process by going through an extractive stage, during which economic activity is dominated by agriculture and natural resources (mining, lumber, etc.). This is the stage in which many of the world's developing countries currently find themselves. Gradually, the extractive stage morphs into an industrial stage, during which craft and artisan activities grow in scale and begin to resemble what we recognize as modern manufacturing industries. Finally, the economy moves into a post-industrial stage, during which services, information, and knowledge become most important.

The U.S. is in the middle of the transition from an industrial to a post-industrial economy. The transition became quite noticeable during the 1990s, with its high-tech and dot-com booms, but it's been going on for decades.

Let's look at the data. The accompanying table shows that in 1952, there were 48.9 million non-farm employees in the U.S, and 15.3 million of them were employed by manufacturing industries. Hence nearly a third of all payroll employees were in manufacturing.

Fifty years later, in 2002, the level of manufacturing employment was virtually unchanged at 15.3 million. But because total employment had grown so much, the proportion of manufacturing employment had fallen to under 12 percent. As the table shows, the decrease in manufacturing's share of total employment fell steadily over that 50- year period. The manufacturing sector has become a smaller and smaller employer of Americans. Recent job losses are continuations of this trend, *not* evidence of new developments.

Manufacturing Employment (thousands)				
Year	Total Employment	Manufacturing Employment	Share of Total	Per-Capita Real GDP
1952	48,909	15,291	31.3%	$11,979
1962	55,659	15,498	27.8%	$13,825
1972	73,798	17,669	23.9%	$18,573
1982	89,677	17,363	19.4%	$21,187
1992	108,726	16,799	15.5%	$26,936
2002	130,376	15,306	11.7%	$32,735

Sources: U.S. Bureau of Labor Statistics, U.S. Dept. of Commerce, U.S. Census Bureau

Instead of cursing the economic gods, we in North Carolina should probably consider ourselves lucky to have avoided the day of reckoning as long as we have.

The decline in manufacturing started long before the North American Free Trade Agreement and the World Trade Organization. It started long before China emerged as a new industrial power. These recent developments didn't *cause* manufacturing to decline, because it was happening already. Undermining the WTO and retaliating against allegedly unfair Chinese trade practices won't reverse the trend.

And that's good, because as manufacturing has receded in importance, the American economy has become more efficient, more diversified, and more affluent. As shown in the accompanying table, per-capita real Gross Domestic Product, which is the average person's share of national income after it's adjusted for inflation, has nearly tripled since 1952. That's very nearly the inverse of what's happened to manufacturing employment. We often hear that the decline of manufacturing will leave us nothing but low-wage service jobs, but recent American economic history suggests otherwise.

After all, in the last half-century manufacturing and other goods-producing industries (e.g. construction, mining) never generated a majority of the non-farm jobs in the economy. Service-providing industries have dominated our employment picture. Even in 1952, services accounted for more than 60 percent of all jobs. In the mid-1990s, when the manufacturing sector was surging and virtually no one complained about the economy, over 80 percent of all jobs were in services. Now it's about 83 percent.

Which service sector increased its share of employment the most over the last 50 years? You might be tempted to say government, which the federal Bureau of Labor Statistics includes under services. And in fact government's share of employment did rise between 1952 and 2002. But it didn't rise by much, once one accounts for the growth of the overall economy. In 1952 government accounted for nearly 14 percent of all employment. The share climbed briefly above 19 percent in the 1970s, but by 2002 it was back down to 16.5 percent.

One of the big growth sectors has been professional and business services, which includes lawyers and architects but also includes bookkeepers, engineers, administrators, and temp services. Between 1952 and 2002, this sector's employment share doubled, to more than 12 percent of the total.

Another growth sector has been education and health services, whose share of total employment nearly tripled since 1952, also to more than 12 percent now. And the proportion of total jobs generated by the leisure and hospitality industry rose from 6 percent in 1952 to more than 9 percent in 2002.

If you look at these job categories and worry that nothing is being produced, you've fallen prey to one of today's most pervasive economic myths: that in order to have a strong economy, we have to "make things." But the goal of an economy isn't to make *things*; it's to make *value*. And that's something the American economy does well, as the figures on national income make clear.

If we believe the myth that we have to make things, then of course we could try to turn back the tide of manufactured imports. We could prop up declining industries. We could pretend that "unfair trade" is the cause of our problems. But it won't work. We might as well stand at the beach and order the tide not to come in.

The long-term evolution of our economy will continue, because no government action will be enough to counteract it. The economy, like the ocean, is simply too big. If we were as wise as King Canute, we would accept that reality, and try to find the best way to continue our transition to a post-industrial economy. That means retraining workers where appropriate. It means implementing social and humanitarian programs where necessary. It means improving the way we educate tomorrow's workers.

It does *not* mean spending our precious time and money on policies that ignore history and threaten to undercut future gains.