Recent Troubles for Textiles Are Part of a Long-Term Trend

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Article:

The drumbeat of bad news from the textile and apparel industry is relentless. Last fall, Burlington Industries filed for bankruptcy protection, and both VF Corporation and Guilford Mills announced large lay-offs. Now Guilford Mills is struggling to refinance its debt in order to avoid joining Burlington Industries in bankruptcy.

Every news story about these developments blames the current state of affairs on cheap foreign imports and the recession. But is it really the recession?

In May of last year, the *News & Record* came out with its Top 50 rankings of corporations that are either headquartered in the Triad or have significant operations here. The 2001 rankings were based on financial data related to both size and growth in 2000, *before* the current recession began.

As in previous years, textile and apparel companies did poorly in the 2001 rankings, but things looked worse than ever last year. Only two textile/apparel companies made the Top 50, Gildan Activewear at an impressive #5 and Sara Lee at #40.

Among the 80 companies considered for the rankings, the big names in textiles accounted for five of the bottom ten, including Burlington Industries and Guilford Mills 79. Both Burlington and Guilford had seen dramatic declines in income in 2000, and the *News & Record* quoted Wake Forest economist Gary Shoesmith as asking, “How long can companies operate in the red before they just disappear?”

The new leaders in the 2001 rankings were high-tech and service companies, with Tyco Industries, Duke Energy, Analog Devices, and American International Group taking the top four spots. UNCG economist Don Jud noted, “There’s a structural change in our economy,” and he added that the face of the new Triad economy is “a little tech and a lot of service.”

The thing about structural change is that it can’t be affected significantly by economic expansions or recessions. Structural changes can be delayed or accelerated by the business cycle, but not started or stopped. So the recession didn’t cause the problems at Burlington Industries and in the rest of the textile/apparel industry. It merely moved up the day of reckoning.

That day has been long in coming, the culmination of over a century of economic history in North Carolina.

North Carolina began as one of the poorer states in the South. Its economy was primarily agricultural and dependent on abundant natural resources. After the destruction of the Civil War, North Carolina and the rest of the South suffered from low productivity and a poor educational system. The result was low wages by national standards.

However, this carried the seed of future development, as certain labor-intensive industries started relocating to the South. Ross Perot would have called this a “giant sucking sound,” as businesses headed south in search of wages far lower than in the more industrialized North.

Among the industries that came south was the textile industry, which had been centered in New England. It became a signature industry of North Carolina and the Southeast.

This is important enough for me to say again: the textile industry came here in the first place because of low wages. Unfortunately, an industry that lives by low wages will die by low wages. So the decline of textiles in North Carolina was probably inevitable as long as it continued to rely on those low wages.

But for many years, the industry thrived in its new home. The clustering of textile and apparel companies generated synergies. Throughout the last century, the tremendous growth of manufacturing in North Carolina reinforced the success of textiles. Banks grew, businesses invested, and when American manufacturing was reborn in the 1990s, the North Carolina economy flourished anew.

But the textile industry, particularly its apparel side, hasn't evolved as many other industries have. And now the economy is passing the industry by. The catch-phrases now are "education," "skills," and "human capital." Economic developers yearn to attract knowledge-intensive businesses. Community groups rally to improve the public schools and to forge connections between businesses and universities.

Some companies in the textile industry have reacted by embracing "New Economy" principles. Some have invested heavily and are producing specialized and knowledge-intensive products. Others are shedding apparel manufacturing and devoting their resources to higher-margin activities such as research, design, and marketing.

Domestic textile manufacturing is still showing some life, though primarily through the aggressive implementation of labor-saving technologies. It will never be the employment engine that it once was. But apparel is the root activity for much of the industry, and it remains labor-intensive. And so we've seen the gradual disappearance of on-shore apparel manufacturing. Long before the current recession and long before NAFTA, that industry began its migration from North Carolina in search of lower wages elsewhere.

Sound familiar? Substitute "New England" for "North Carolina" and you have the events of 100 years ago. Now we find ourselves in a recession, one that was probably exacerbated by the events of September 11th, and one that appears to be worse in manufacturing-intensive North Carolina than it is nationwide. What do we do now?

Most economists agree that anti-recession policy is like retirement planning. If you wait until you need it, it's too late. The best anti-recession policies are made years before, and once a recession has started, all an economy can usually do is to ride it out.

It's even tougher to reverse long-term structural changes once they get up a head of steam. Our best bet now is to maintain a focus on the long term and deal with our economic infrastructure of education, transportation, and quality of life.

Maybe we were fortunate to have enjoyed, as an economy and as a community, the fruits of the looms for so many years. But that time is coming to an end. The North Carolina economy is undergoing a transition away from low-margin manufacturing toward higher-margin businesses. Whether that leads to relatively low-wage or high-wage jobs depends on how the state cultivates its economic infrastructure. The challenges brought on by that transition will be facing us long after this recession ends.