

A Debt Culture Run Amok

For the last twenty years, the U.S. has been a nation of drug addicts and the drug has been credit.

In 1950, manufacturing was 30 percent of GDP and finance was 10 percent. By 2005, finance was 20 percent of GDP and manufacturing 12 percent—and finance made four times the profit of the manufacturing sector. Instead of making money from making products, the trend became making money from money.

In general the nation abandoned manufacturing and put its faith in finance. After the rise in low cost imports, the assumption was that the average consumer would be better off because they could buy more imported goods with their wages, even though their wages might not be improving. I think the title of this economic policy should be "Wealth without Manufacturing," or wealth without having to make a product.

But, of course, there always has to be a downside, and the biggest loser was the manufacturing sector of the economy. These policies not only led to huge indebtedness and an ongoing financial crisis, they were also policies of deindustrialization. The countries who are exporting to us gained by having huge economic surpluses. "By strengthening their industries and undermining U.S. industries, they have enhanced their power in the world. These countries sacrifice some domestic consumption in the short term but gain tremendously in terms of long term growth. In contrast the United States gains domestic consumption in the short term and suffers deindustrialization and a severe cut in living standards" (*Trading Away Our Future*, Raymond, Howard, Jesse Richman, Ideal Taxes Association, 2008).

The second big problem is very subtle, but has slowly become visible to the middle class. In the last five years there has been a stagnation of median family incomes at a time when health costs and personal debt are skyrocketing.

Manufacturing As Solution

I can't offer solutions to the many problems of failing banks, foreclosed mortgages, and the enormity of the debt. But I can say we need to get back to fiscal responsibility, savings, and balancing budgets. Most importantly we need a policy

that counters the policy of deindustrialization. I see the key to the overall solution as a policy of creating a strong and growing manufacturing base.

We need more investment in manufacturing, the decline of which has resulted in fewer well paying jobs and increasing inequality of incomes. Investment in manufacturing won't happen unless we begin the job of balancing the trade deficit.

Unfortunately, solving the manufacturing crisis comes at the same time that we must find solutions to the financial crisis. This will mean saving the banking system and preventing a worldwide depression,

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regulating the system so the greedy financiers can't do it again, emphasizing savings, and getting the nation out of debt.

We need to get back to creating wealth through manufacturing, mining, and agriculture. As Thomas Friedman said, "This problem is more complicated than anything you can imagine. We are coming off of a 20 year credit binge. As a country, too many of us stopped making money by making 'stuff' and started making money from money."

Bridging The Gap

People have lost sight of the fact that a strong manufacturing base is the foundation of the economy. Here are just some of the reasons to consider:

- Secondary jobs—Manufacturing stimulates employment in other sectors at a greater pace than other industries. On average, 8 jobs in the manufacturing sector create 6 jobs in other sectors of the economy.
- R & D—Many experts feel that the U.S. is simply not doing enough in R & D and we are falling into an "innovation gap." If the U.S. is going to have a chance for continued economic growth based on innovation and new prod-

ucts, it will be extremely important to increase R & D.

- Reducing Trade Deficits—Manufacturing contributes more than 62 percent of American export earnings. If we are to have a chance at balancing the trade deficit, the manufacturing sector must grow. The U.S. cannot rely on service exports to take up the gap.

- Support of state economies—In terms of tax receipts, manufacturers are huge contributors to state revenue budgets. The Bureau of Economic Analysis shows that "During the last 10 years, manufacturing corporations have paid 30 to 34 percent of all corporate tax payments for state and local taxes, social security and payroll taxes, excise taxes, import and tariff duties, environmental taxes and license taxes." In light of the current crisis in state budgets, states cannot afford the loss of manufacturing tax revenue.

- High skilled jobs—We need training programs that create high-skilled workers in all industries. Jobs like machinists, mould makers, and fabricators are the backbone of manufacturing. Training people for the hospitality or retail industries will not solve the high skilled workers necessary, or provide family wage jobs.

- Manufacturing supports other sectors—The majority of goods hauled by trucks and railroads are manufactured goods. The utility, energy, and communications industries as well as the OEMs that supply them with equipment are all connected to manufacturing.

We have had our twenty year experiment with cutting taxes, deregulation, promoting deficits, sub prime loans, hedge funds, and credit cards. It has resulted in an economy that is in danger, and facing the loss of manufacturing, and declining living standards for almost all workers. I hope that the financial crisis has woken the nation from its debt stupor. Perhaps now we can get back to focusing on what it takes to grow a stable economy. It is time to get back to savings, balanced budgets, and making "stuff."

Mike Collins is the author of Saving American Manufacturing. IMPO

