Manufacturing and the Decline of the Middle Class

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In 1988 while doing research for my first book, I came across a 1987 report titled “Technology and the American Economic Transition” that predicted:

“During the next two decades, new technologies, rapid increases in foreign trade, and the tastes and values of a new generation of Americans are likely to reshape virtually every product, every service, and every job in the U.S. These forces will shake the foundations of the most secure American businesses”. [1] [1]

This was the very first report in my research that predicted the potential problems associated with the start of globalization and the transition to the “Post Industrial” economy. I saw the predictions in this report as not only a threat to manufacturing but a threat to the middle class.

In 2004 I wrote the book “SAVING AMERICAN MANUFACTURING" hoping that American Manufacturing could martial its resources and use new strategies to somehow avoid the decline of manufacturing and the transition into some kind of post industrial service economy. But, alas, it was too little too late. For all practical purposes we are now in the post industrial service economy and the manufacturing crisis has now become a crisis of the middle class.

It has now been 26 years since that report which predicted a lot of pain, turmoil and

change. The following is an economic update of what has happened:

1. Unemployment, damaged communities, and obsolete skills

Since year 2000 American manufacturing has lost 5.8 million manufacturing jobs. Since January 2010 the industry has hired back 526,000 employees. But, manufacturing doesn't want low skilled workers — they want multi-skilled workers. The skills of most of these laid off workers are obsolete.

President Obama has made a pledge for his second term to create 1 million manufacturing jobs in the economy. But at the end of his first year (Dec.31, 2013), only 79,000 manufacturing jobs have been created — about 7 percent of the goal.

Also, since 2000 about 58,000 factories have been closed. At the same time the large manufacturers have shut down production lines and offshored many products which cut their manufacturing workforce by 2.9 million people. These actions have had an enormous affect on communities, particularly small rural communities that depend on only a few plants for employment.

The wrenching pain of job loss is not just the pain of manufacturing blue-collar workers. Many office and professional white collar jobs are being shipped out of the country. Once the Internet was introduced to the average business, any job that could be defined into routine tasks and reduced to Os and 1s could be outsourced. Jobs, such as travel agents, accountants, engineers, software programmers, actuaries, telephone services, financial analysts, architectural drafters, telemarketers, claim adjusters, home loan processors and other white collar jobs at the higher end of the wage scale have been outsourced. The researcher Alan S. Blinder estimates that about 30 million service jobs are highly off-shorable out 130 million service industry jobs. [2] [2]

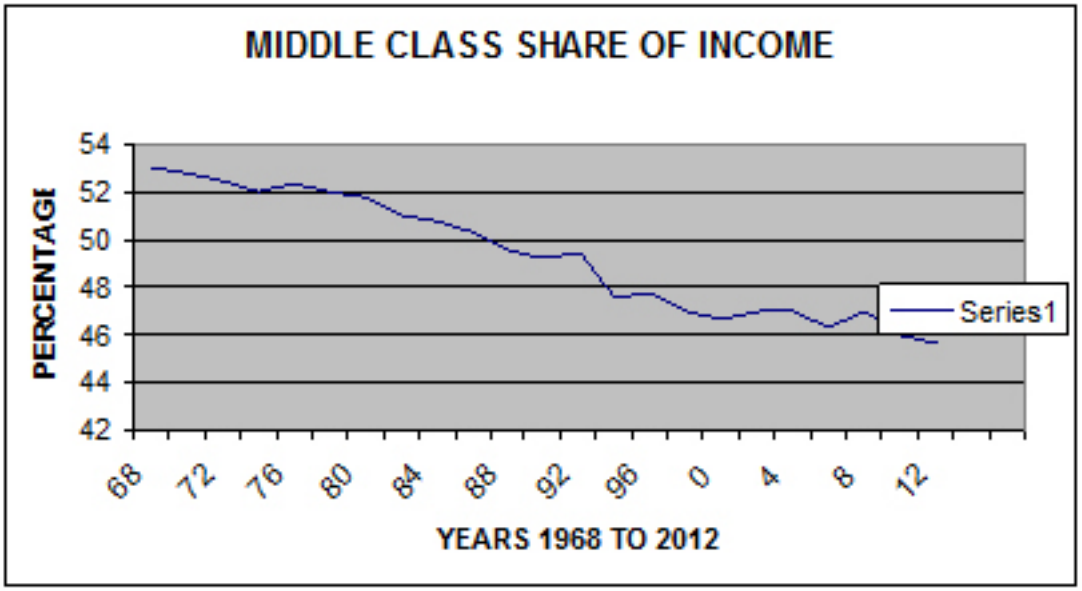
So the prediction that the transformation could affect every product, service, and job is proving correct. The dislocation and pain seems to be spread over a wide range of industries and jobs.

2. Declining living standards

Even with the unarguable growth in wealth for the top 20 percent of American workers, U.S. living standards have fallen for most of the middle class. Since 1967 the median household income has only risen from $42,000 per year to $51,000 per year, or a gain of $9,000 in 45 years. The median household income reached a high point of $56,080 in 1999 but has fallen $5,063 to $51,087 in 2012. If the economy would have continued the growth rate from 1947 to 1979, the median income would be $77,131 today instead of $51,087.[3] [3]

The decline of middle class income has also resulted in the decline of the share of the nation's total income going to the middle class. The following chart from the Bureau of Census shows that middle class income reached a high of 54 percent in 1968 and declined to 45.7 percent of total income in 2012. And, after a long

recession there are still 10.4 million people unemployed in the U.S.



Another good indicator of this decline is the middle class dependence on government support from the so called welfare state. “New research from Jeff Sessions a Republican Senator on the Senate Budget Committee estimates that 107 million American are on some form of means tested government welfare**.”**

So the prediction of America in graceless decline with living standards falling has happened and the middle class is in a “New Normal” for the economy. Yes, we are in the Post Industrial Economy and the assumption that living standards will improve from one generation to the next is in question.

3. Gap between Rich and Poor

Clearly, the gap between the haves and have-nots is widening at an accelerating pace. This has been documented by many economic studies. The following chart shows that between 1979 and 2007 the top 20 percent of working people gained 10 percent increase in household income. I don’t think that the average American begrudges the top 20 percent their income gains. What they resent is that the growth for the top 20 percent has come at the expense of the other 80 percent of working households (see chart). This is a zero sum game that has caused an ongoing furor over inequality and the fear that the average worker no longer has a shot at the American dream of upward mobility.

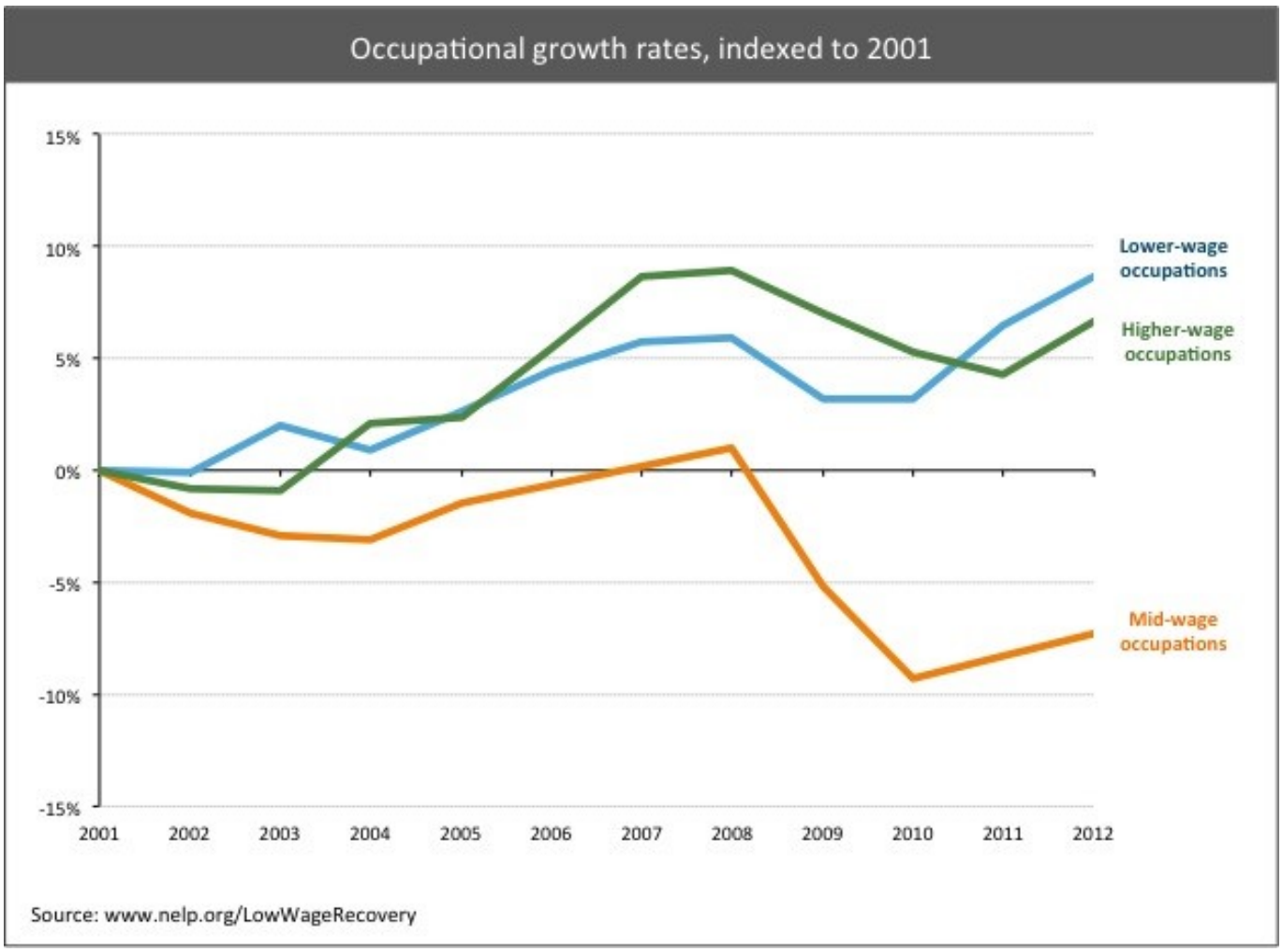
	1979	2007	loss or gain
Highest quintile (top 20%)	42%	52%	+10%
Fourth quintile	22%	20%	-2%
Third quintile	16%	13%	-3%
Second quintile	11%	9%	-2%
Lowest quintile (lowest 20%	9%	6%	-3%
Totals	100%	100%	

Source – Trends in the Distribution of Household Income between 1979 and 2007 –Congressional Budget Office

The second part of this problem is about laid off workers being forced into low wage jobs or temporary positions. If you want a detailed look at the occupations with the largest quantity of jobs in the next 10 years just go to occupations with the most job growth from 2012 to 2022. This is the number of new jobs in 30 categories that will be created in the next 10 years, with the largest job growth. Note that the government does not forecast any manufacturing jobs in the 30 job categories, and 38 million of the total jobs (69 percent) pay less then $35,000 per year.

The Congressional Budget Office says the unemployed workers who find jobs are likely to find jobs at lower pay In fact, the CBO estimates that re-employed people ”will earn 20 percent less when they finally get work.”

What are disappearing are the jobs in the middle, the good-paying jobs between $14 and $21 per hour with benefits. The following chart OCCUPATIONAL GROWTH RATES shows graphically how the mid-wage occupations are declining and the low wage jobs have been growing since the beginning of the Great Recession. The quantity of jobs is not the issue (there will be plenty of jobs) — the issue is declining wages.



4. "What kind of education is needed to get ahead?

All evidence points to the fact that the credentialed elite (the top 20 percent of working population in income) will continue to enjoy the opportunities. The credentialed elite includes people with technical or professional degrees and business owners for the large part. It is not just about getting a college education. To be credentialed enough to command high incomes is more about getting the right education and training that fits the new economy.

Question #4 is very important because it begs the question of what should the average working person (or kid or grand kid) do to make themselves secure in the new economy? If you listen to the news pundits, read the newspaper, or listen to government officials they will all say that the answer is education and a college degree. If you major in engineering, nursing, accounting or a vocation this may be true and you have a good chance for employment. But just saying that education is the answer in the New Economy is simply no longer true (if it ever was).

A census study from 2009 came out with data that connected wages and majors. The study is "What's It Worth? The Economic Value of College Majors," and analyzes 171 college majors combined into 15 fields. In this study, the majors that pay the lowest starting wages, below $33,000 per year, are psychology and social work, arts, education, humanities and liberal arts, communication, journalism, industrial arts and consumer services. According to the survey, these majors are 38 percent

of all majors in the study. In a word, I think the answer to getting ahead in the new economy is skills. By that I mean certification of skills for specific jobs.

Another survey by the Center for College Affordability and Productivity says"48 percent of those college graduates who are employed are occupying jobs that the Bureau of Labor statistics suggest require less then a 4 year college degree. They also say that 37 percent of the graduates are in jobs that require no more then a high school degree and 5 million of the jobs require less then a high school diploma. So where did these people find work? 16.5 percent are bartenders, 14 percent are waiters or waitresses, 18 percent are telemarketers, 24.6 percent are in retail — all have college degrees.[4] [4]

It does not appear that the jobs being created in the post industrial economy are going to halt the decline of the middle class or improve living standards. I believe that to have a chance of reversing this, American manufacturing must rebound. Manufacturing was the primary reason for the post World War II growth of the middle class and they are still inextricably linked today. But even more important then jobs, manufacturing is the key to innovation, new products, exports and economic growth. I agree that America will come back from the Great Recession but it won't look like the America we used to know.

[1] *[5] Technology and the American Economic Transition. Office Of Technology Assessment, 1987*

[2] *[6] Alan, S. Blinder, "How Many US Jobs Might be Offshorable", World Economics, Vol. 10,no.2,April-June 2009*

[3] *[7] By The Numbers: The Incredibly Shrinking American Middle Class, Karin Kamp, What Matters Today, Sept 20,2013*

[4] *[8] Pep rallies rarely enlighten, George Will, Washington Post, October 2013*

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