

Manufacturing and the Decline of the Middle Class, Part One

Mike Collins, Saving American Manufacturing



In 1988, while doing research for my first book, I came across a report titled “Technology and the American Economic Transition.” The report insightfully 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”.

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 marshal 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 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 2000, about 58,000 factories have been closed. At the same time, the large manufacturers have shut down production lines and off-shored many products — cutting their manufacturing workforce by 2.9 million people. These actions have had an enormous effect on communities, particularly small rural communities that depend on only a few plants for employment.

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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. The researcher Alan S. Blinder estimates that about 30 million of the 130 million service jobs are highly off-shorable.

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 inarguable 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. If the economy would have continued along the same growth rate we saw from 1947 to 1979, the median income would be \$77,131 today instead of \$51,087.

3. The gap between the 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, and 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.

The second part of this problem is that some laid off workers are being forced into low wage jobs or temporary positions. The Congressional Budget Office says that unemployed workers who find jobs are likely to find jobs at lower pay than the position they previously held. In fact, the CBO estimates that re-employed people “will earn 20 percent less when they finally get work.” The jobs in the middle — the good-paying jobs between \$14 and \$21 per hour, with benefits — are disappearing.

4. The changing requirements in skills and education. So what should the average working person 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 at employment. But saying that “education” is the answer in the new economy is no longer true — if it ever was.

A census study from 2009 produced data that connected wages and majors. The study — “What’s It Worth? The Economic Value of College Majors” — 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 — and 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 than a 4-year college degree. They

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also say that 37 percent of graduates are in jobs that require no more than a high school degree and 5 million are in jobs that require less than a high school diploma.”

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. But even more important than 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.

Part 2 of this article will describe the problems of surviving the post-industrial economy, and Part 3 will offer solutions.

Mike Collins is the author of the Growth Planning Handbook for SMMs. You can find him on the web at www.mpcmgt.com [1].

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