NAM's 'renaissance' of U.S. industry: It never happened

by Chris White

This speech was delivered to a conference of the Schiller Institute in Washington, D.C. on March 29.

The National Association of Manufacturers (NAM) has recently published a book-length report on the U.S. manufacturing sector. Entitled *Making It in America, Proven Paths to Success from 50 Top Companies* [Simon and Schuster, 1995], the report's authors—Jerry Jasinowski, the president of NAM; and a Northern Virginia-based economic consultant named Dr. Roger Hamrin—purport to present what they call "a surprising discovery," namely, that "America is in the midst of a business renaissance and economic comeback that have profound and promising implications for businesses, consumers, workers, and the country's economic future."

Their purpose bears as much relation to reality as a second-hand baloney sandwich does to a prime rib roast. However, what they put on display, between the red-white-and-blue hues of the book's jacket, typifies the delusions and ignorance which are leading the country head-long toward disaster. Out of these delusions are born the insistence that 1) an economic recovery is in progress; 2) there is no systemic crisis; and 3) that any problem that might come up can be dealt with by administrative means. The authors' 50 success stories provide the anecdotal evidence to buttress such assertions.

A subsumed, adopted purpose of the book, as the authors put it on page 21 of their Introduction, and again on page 30, was "to tackle head-on the pessimism about American manufacturing that had become so widespread in the mid-1980s." Or again on page 30, "these figures explode the myth that had taken hold in the 1980s that manufacturing had stagnant productivity growth and had seen its best days. Not only was this not true, but the reality was that American manufacturing was becoming a productive powerhouse, surpassing other parts of the economy, and our international competitors. It is highly ironic that at the height of the 'death of manufacturing' laments, in 1985, American manufacturing was right in the middle of six years (1983-88) when manufacturing productivity increases exceeded 4% every year."

Indicative of the authors' honesty and truthfulness is the fact that the purveyors of what they identify as "the pessimism about American manufacturing" are never identified by name. Since the rigorous treatment of that subject has only come from Lyndon LaRouche and his co-thinkers (see LaRouche's Ninth Forecast, "The Coming Disintegration of World Financial Markets," *EIR,* June 24, 1994), it can readily be asserted that the book's actual purpose is to put into circulation arguments and examples intended to provide the credulous and ignorant among the country's policymakers with means to rebut what LaRouche has had to say.

This presentation will put Jasinowski and Hamrin's arguments through the shredder, so to speak, the better to demonstrate to those who ought to know better the consequences of their ignorance and credulity, and to equip people like you with the necessary counter-arguments.

This will be done in three steps: firstly, showing why, even in their own terms, they are at best absurd, and at worst, outright liars; second, developing the case, on the basis of evidence from physical economy, of what the reality they purport to address is; and, third, demonstrating the relationship between that reality, and the ongoing, deepening, fi-

Workers carry out the demolition of U.S. Steel's National Tube Plant in McKeesport, Pennsylvania in 1985. The National Association of Manufacturers' Jerry Jasinowski denies the obvious fact that industry is being shut down.

nancial bankruptcy crisis. The intended effect is to provide material to buttress the case that bankruptcy reorganization is the only way out of the mess. That there is no longer any room for the usual kind of "administrative measures" that have been employed to define a pathway from one so-called "isolated incident," like the Barings failure, to the next, bigger one.

The economics of the New Left

First, a word about method. It is ironical, given who they purport to be, that Jasinowski and Hamrin actually take up an economic method that LaRouche has been attacking, in the form they present it, since he authored a pamphlet in 1968 entitled "The New Left, Local Control, and Fascism," to counter the 1960s swamp of New Left, Trotskyite, and Comintern-type groups, which were then being funded by McGeorge Bundy's Ford Foundation as counterinsurgency projects. As then the radicals of the New Left's Students for a Democratic Society insisted, so now does National Association of Manufacturers President Jasinowski, that the sole source of profit for the economy is the direct labor of the individual worker employed in the local plant. That profit, and thus productivity, in his sense, i.e., the increase of such locally generated profit relative to labor, and other costs of the local production, are secreted at the local level, without reference to the functioning of society as a whole.

A strange sign of the times, isn't it, that the National Association of Manufacturers would now allow its name to be associated with arguments which, less than 30 years ago, would have been identified as the hallmark of the lunatic fringe of the far left? Still stranger that such arguments could be accepted by apparently educated people, as having anything useful to say about anything.

You think perhaps this is an exaggeration? Well, turn to the case study presented on page 106, under the heading "Money Motivates People at Lincoln Electric." "Imagine a company like this. No paid holidays. No paid sick days. No paid health insurance. No coffee breaks. No air conditioning in the factory. And the workers' pay is based on piece-work. Sounds almost medieval, or at least early industrial era. You can almost hear the cries from the die-hard Marxists, 'There's the worker exploitation we've been talking about.' Just one problem, the workers love it." They, you see, have an incentive-based profit-sharing plan. Or, on page 114, from Lloyd Spoonholtz, president of Machinist Local 1918 at the Whirlpool plant in Benton Harbor, Michigan: "Productivity used to be a dirty word around here. People thought they would have to work harder without getting anything for it. Now, they're starting to understand productivity pays." Or, the case of Oregon Steel, on page 118: "Under the old ownership, employees just 'put in our time,' says crane operator Chet Russell. Now that employees are owners [the workers bought out the plant with their share option plan], Russell says they put in extra effort, trying hard to satisfy customers, 'because it's money in our pockets.' "

These are all schemes—profit sharing, employee ownership, co-participation—which would have been on the agenda of the far left 30 years ago. They are typical of the methods cited by Jasinowski and Hamrin which are producing what they call the "renaissance of American manufacturing." They are also, as LaRouche wrote back in 1968, when he took up the cudgels against the NAM's predecessors in the "New Left," the methods of the Nazis.

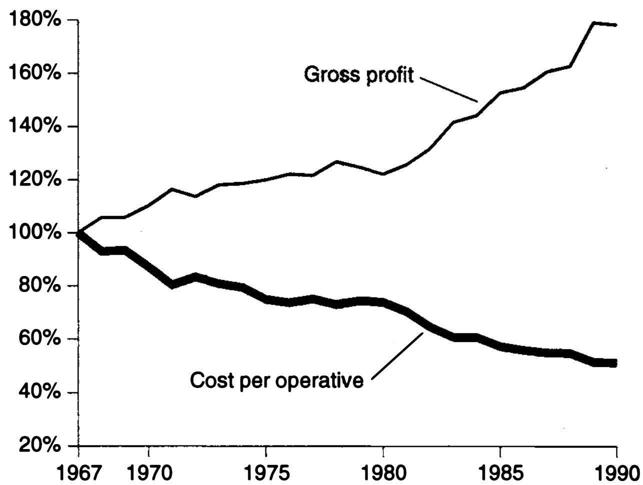
For example, page 166, the case of Microsoft: "A second ingredient is insecurity—this drives the desire to always want to do better." Or, page 115, the case of Whirlpool again: "The challenge was plainly there for everyone to see in 1987. Employees at the small tooling and plating plant in Benton Harbor, Michigan, watched the wrecking balls take down their 750,000 square foot next door sister plant. One thousand jobs disappeared along with the walls of the factory. They knew that their plant could easily be next."

If profit is locally generated, then the old Nazis, the New Left of the '60s, and Jasinowski and Hamrin of the NAM will also come together, in terms of policy, around the question of the 80% of the labor force who are not directly involved in locally producing profit, and the broader mass of society, namely, the young and the old. Since their existence does not directly contribute to locally produced profit, they become useless eaters, sub-humans, to be treated as sub-humans, and those who are employed, for the moment, kept just one step away from joining the ranks of that underclass themselves.

They let the cat out of the bag, didn't they? "Sounds almost medieval," they wrote about work conditions at the Cleveland plant of Lincoln Electric, and "the workers love it." Because this notion of profit generation is older than the current generation of leadership at the NAM, older than the baby boomers of the New Left, who for all their insistence on novelty, weren't original about anything, and older than the Nazis. It is the same ancient oligarchic cultism that we find otherwise among the cultist followers of Phil Gramm and Newt Gingrich's "Conservative Revolution."

Let's first show why this notion of profit is off the wall. **Figure 1** shows a view of the progress of the U.S. economy since 1967. It is one which Jasinowski and Hamrin would no doubt accept as representing their views, if they had the concentration span to get above the anecdotal enumeration of their 50 case studies, to try to put together a picture of the economy as a whole. Assume that profit is generated at the local level of the particular plant, add up the total shipments of the local plants, and subtract from that the costs of producing the shipments, wages, costs of materials, costs of new capital expenditure, and costs of credit. Then compare the growth of gross profit with the growth of costs in per operative terms. The costs are estimated on the basis of physical parameters which Jasinowski and Hamrin would not accept, as we shall see shortly, but the results cohere with their expectations, in a way.

FIGURE 1
Gross profit compared to cost per operative in the U.S. economy
(percent of 1967 level)



So here's the very picture of success: gross profits up by 80%, costs cut in half. This is where the garbage about the American manufacturing renaissance would come from. Look at what that says about per worker productivity! With that kind of improvement in competitiveness, there's no one on the face of the Earth who can beat us. We just have to have faith in ourselves, and our ability to succeed.

Well, fine. Except it is all bunk. What about those costs, society's costs, which are not covered by the operating budgets of these aggregated enterprises, for example, general education, health care, investment in transportation, provision of the investment for the power and water supply on which the particular factories might, and actually do, depend for their functioning, and, of course, the functioning of their workers? If such general costs to society, which make local profit possible, are ignored at the local point of production, what happens then? And, what about other kinds of costs, for example, the cost of credit, which are likewise not determined within the four walls of the plant, and not in ways which are susceptible to the control and management of teams of well-motivated workers, intent on improving the quality of their production, while keeping their jobs? And, of course, what about those who do not work? Where do they fit in the grand scheme of things?

The burden of debt service

Let's add a parameter to represent all those social functions which are not covered by locally generated profit. Let's represent them by debt service, which indicates what we have to pay on what we have to borrow to cover some of what we can no longer produce, or pay for.

FIGURE 2
Debt service per operative
(percent of 1967 level)

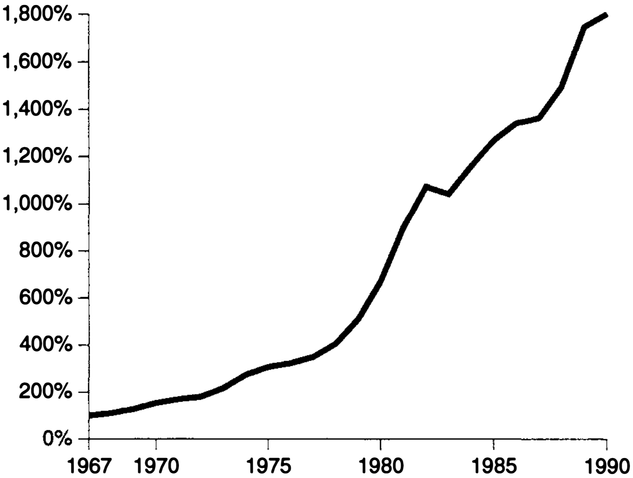
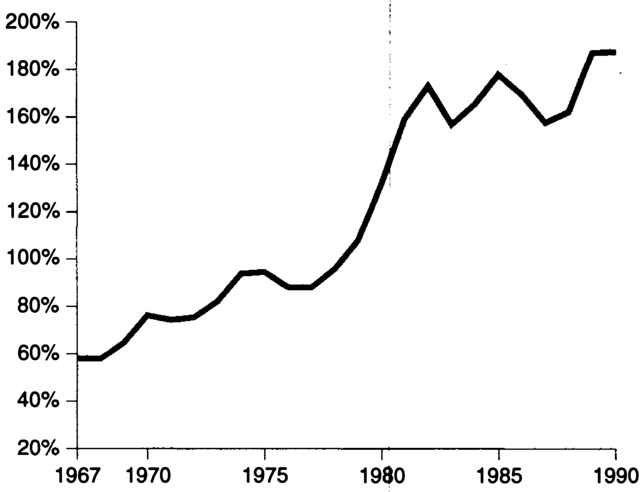


FIGURE 3
Debt service as a percent of gross profit in the U.S. economy



Pursue the paths to success recommended by Jasinowski and Hamrin, and, if you've got brains left afterwards, you will find that you are actually standing on your head. The better you think you are doing, the worse everything is actually going to get. In fact, the results will be as suicidal in effect as jumping off the top of the Washington Monument, as **Figure 2** implies. It shows the growth of debt service, per operative, scaled to the same, common 1967 base, as the previous representation of gross profit and costs.

What we see makes a mockery of the Jasinowski-Hamrin "renaissance" thesis. And it ought to give pause to the credulous and deluded among their followers to think a bit about what it is that they are promoting. Costs are cut in half, approximately. Gross profit, per operative, is increasing by 80%. Society's total debt service, divided by the productive operatives who are the sole source of wealth available to service debt, is increasing 18-fold. If you focus on the local "success stories," it is indeed possible to leave out the big picture. But, don't then claim that your local "success stories" have anything to import to the "big picture" at all. Turning to the underlying numbers from which the indices are derived clarifies the point.

Back in 1967, debt service was less than half the profit accruing as the difference between the dollar value of manufacturers' shipments, and the dollar cost of producing those shipments, the sum of wages, costs of materials, net new investment, and the cost of credit taken together. **Figure 3** shows how that relationship has changed over time. An economy can function, with less than half its profit gobbled up by debt service, but you'd better do something about it, and quickly.

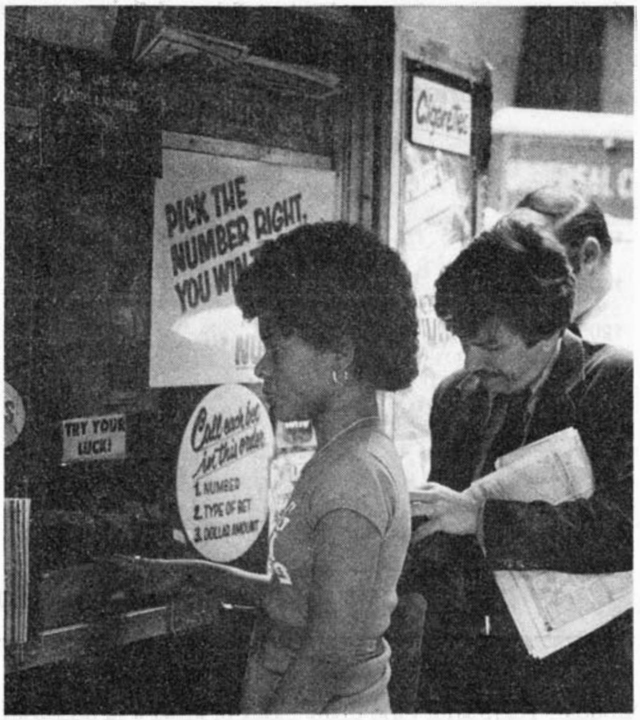
Let debt service grow above gross profits, and you're in trouble. There aren't too many cases in history of countries whose populations allow that to happen, and then subsequently develop the moral fiber to reverse what they have previously tolerated. Yet that is what has to be done.

The profile of the growth in debt service outstripping the growth in gross profits by a factor of 10:1 (18:1.8), gross profits growing faster than costs by a factor of 3.5:1, and debt service growing faster than the costs of producing the profit by 36:1, is a profile of a society diving into bankruptcy, destroying the productive potentials on which all else depends, for the sake of accumulated debt. It ought to be obvious that no individual manufacturer, nor any combination of manufacturing industries, could make a dent in, or survive against that combination. Still less could they be capable of what the NAM president and his co-author call a "renaissance" of American manufacturing. An individual corporation with that profile would already be in Chapter 11 bankruptcy court trusteeship. Bankruptcy reorganization is the only way out, as it would be for an individual corporation in a similar situation.

This simply says that the authors are ridiculous on their own terms. They've adopted the intellectual standards and methods of the 1960s radicals, both in the way they include what they choose to include, and the way they overlook what they leave out. And they come up with the result you might expect. Just be sure to keep them off your living room carpet. Such productions belong outside, in the yard!

It has nothing to do with money

This much you could probably get out of a home study course, like Hume's "Successful Investment and Money Management," but it doesn't do the job. The whole basis has



A scene from the "post-industrial society" in New York City. Let them eat lottery tickets?

been money. So we've shown that conditions of financial bankruptcy apply. But, contrary to popular belief—and anything that's useful usually is contrary to popular belief—money doesn't make the world go 'round. Jasinowski and Hamrin might want to argue, in nicer words, that the reason we have manufacturing industries is to make money for shareholders in the form of dividend distributions, and for bond and debenture holders in the form of interest payments; but that's all bunk.

But there's something else involved. Would you go to an oncologist who told you he was a defender of the cancer's right to exist? Well, that's what you are going to get, if you choose to believe the fraudulent nonsense peddled by this pair of hucksters. Here we've seen two processes: the growth of the claims of debt, and the reduction in the costs of maintaining economic activity. The two are interrelated. Growth in the claims of debt is fed by the reduction in the costs of economic activity. That is why the crisis is systemic, and not susceptible of treatment by administrative measures. By promoting the so-called growth of locally generated profit, at the expense of the cost of maintaining labor, and so on, Jasinowski and Hamrin are promoting the growth and metastasis of the cancer at the expense of healthy tissue. And that is what they call the "renaissance of American manufacturing."

Let's now turn our attention to the derivation of the cost side of these paired parameters. Why on earth do we have manufacturing industries? For the reasons Jasinowski and Hamrin imply, to make money in the form of profit? We have manufacturing industries because of something they overlook, because they don't know anything about it. If they did, they wouldn't overlook it. We happen to be human beings. We are superior to the other species of living creatures that we know about. We are not driven by giraffe-like, or other bestial, more predatory instincts, as Squeaker Gingrich is fond of instructing his students. We are superior because we reproduce ourselves in a different way than the lower animals do. We create and assimilate ideas, which God-given power enables us to transform the conditions of our existence, such that more people can exist at a higher standard of living, and a lower social cost, in labor terms of producing that standard of living. The development of manufacturing industries is the result of that process, not someone's crude money-making by way of primitive hordes of accumulated capital in the form of money.

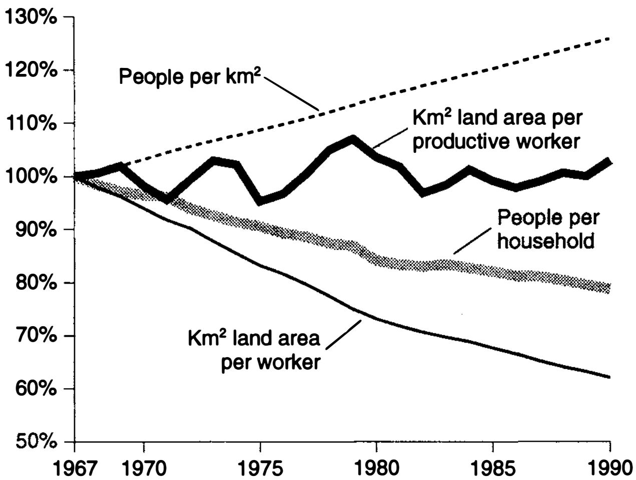
This can be proven, as a general case, as LaRouche has done, from mankind's history in its rise from the Pleistocene. It can be proven, more specifically, with equal universal import, from the history of the impact of the ideas which shaped Europe's 15th-century Renaissance, and subsequent transformation in mankind's existence. It can be proven, yet more specifically, but again with universal import, from the history of the development of agriculture in these United States over the past 200 years, through the cumulative productivity increases by which a lesser absolute number of farmers now feed about 80 times more people than did their forebears of 200 years ago.

We developed a manufacturing industry, and the economic and social infrastructure which supports it, as part of that historical transformation of the earth, and nearby space, through which we have reproduced ourselves as a species. Money didn't do that; human minds, images of God their Creator, did.

The market basket of consumption

So, put money aside. What is needed to ensure human reproduction? The output of useful goods and services, such as food, clothing, housing, education, health, and so on. Such useful goods and services are not optional. They are necessary requirements, defined by the standards set, e.g., educational qualifications of a productive worker who can usefully contribute to the existence of the generations that are to come. Through that approach, we can establish the costs of reproducing society, in terms, for example, of labor equivalents, or energy equivalents. But now you see, we're not talking about how these things might look on someone's abstract balance sheet. Taking up these matters from the standpoint of the reproduction of human existence is to take them up as matters of life-or-death importance for all of us. There, Jasinwoski and Hamrin have chosen the side of death, because, like all practitioners of oligarchical cultism, what they recommend is antithetical to continued human existence.

FIGURE 4
Changes in U.S. population densities
(percent of 1967 level)



The required output of such useful goods and services can be systematized in the form of market baskets of consumers and producers' goods. (See LaRouche's 1984 book, *So, You Wish To Learn All About Economics?* for the systematic treatment of this.)

What we've done—not simply to demonstrate that Jasinowski and Hamrin have the intellectual consistency of a bowl of cold porridge, but it helps—is to put together a profile of such requirements, in the form of a market basket of goods consumed by households and industries, on the basis of what those elements looked like in 1967. Since a worker doesn't work for himself, in the sense that his or her pay-packet ought to be sufficient to support those who depend on his or her labor, these requirements have to be defined in such a way as to avoid the genocidal piggishness of Jasinowski and Hamrin. Consumption levels ought to be taken per capita, of the whole population, as well as per household. And, since, in the broader sweep, we're interested in the trans-generational increase of human qualities and numbers, per unit area, too.

The idea behind constructing such a market basket is to reduce a plethora of detail to the form in which it is possible to say something useful about the whole society and its functioning. Is, for example, a society such as ours capable of reproducing itself by standards necessary to maintain the forward progress of that society, and humanity more generally? For example, what would Jasinowski and Hamrin have to say about the picture shown in **Figure 4?** Would they even consider that what is portrayed might be a matter for policy concern?

Population rising; people per household falling, i.e., households being created faster than the people to fill up the households; productive workforce, operatives in manufacturing, construction, and transportation stagnating; and total workforce increasing faster than productive workforce, or the population.

What does that have to do with required market baskets? If household size is falling, even while the labor force is increasing faster than the population, then our economy is not organized in such a way as to support a future for the population! If the productive workforce is stagnating, while the other conditions apply, then we are probably not even producing for the maintenance of the present living generations either. How come we've got the so-called "under class" of people who have been cast out, our own "useless eaters"? We're no longer doing what human beings are supposed to do. What would be required to reverse it, that human existence might continue as it should? A market-basket standard will help answer that question. First, by way of clarification, there are enough of us present here who are old enough to know that 1967 wasn't really any kind of Golden Age. We certainly had problems enough then. But as a chosen reference point, do just bear in mind: Financially, as we have seen, we were roughly profitable, this is the eve of the currency turmoil that characterized the breakdown of the Bretton Woods system, and the fag-end of the recovery impetus imparted by President John Kennedy, through the Apollo program. It also marks the institutionalization of what we now call the "post-industrial" policy shift (which Jasinowski and Hamrin claim hasn't happened). In short, it is a turning point, from one world to another, and the 1967 reference point thus gives us a way of thinking about one world in terms of the other: how we have fallen, as the theologians might say.

But what might such a market basket be? Well, first, it would look like a list of products. But more than that; we're not interested in the products as such, and the question, did this go up or down, by how much, over what time? We're interested in the question, how are/were those products produced? It's a bit like a recipe book for the economy. If you want clothing, or appliances, or housing, or machine tools, what are the ingredients which you will have to gather together to produce them; and, one step further, what are the ingredients of the ingredients? Thus, to make automobiles, we need steel, and to make steel, we need iron ore, and coking coal and limestone, and refractories. And we also need glass, which needs sand and limestone; and rubber, which needs the chemical industry, and sulfuric acid and caustic soda, and so on. And, then, there's the infrastructure, to deliver the fuel and power, and the water, the transportation grid, and, of course the labor force.

Once assembled, what then? Well, what was the throughput of such final products, intermediate goods, and raw materials back in 1967? Which was the greater, what we produced or what we consumed? After all, we don't want anyone to go without, whether it be a job, in the case that production is higher than consumption, or consumption, in

FIGURE 5

Employment of operatives as percentage of actual requirement

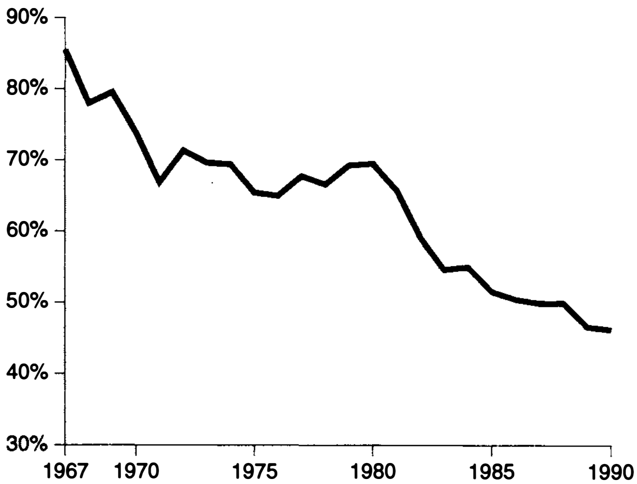
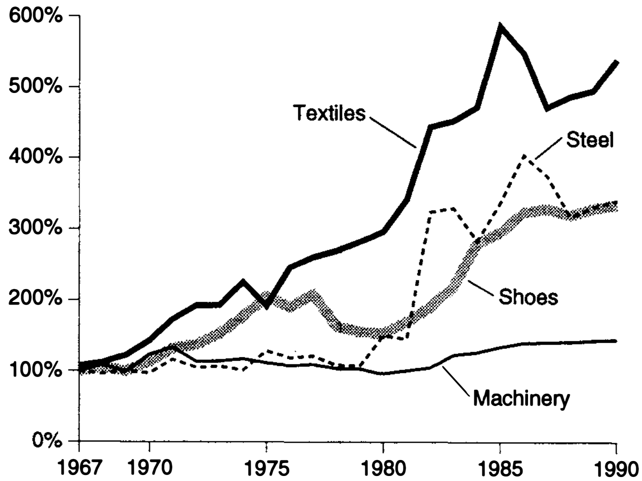


FIGURE 6

Percent of actual workforce required to produce 1967-style market basket



the case that we do not produce what we appear to consume. And what was the relationship between that throughput, and what we actually produced? Answering that, one can then identify what the costs of producing the throughput were in 1967. Now, how has that throughput, and the associated costs, changed, relative to 1967, since 1967? We will have more to say about this in a forthcoming *EIR*.

If we know what the throughput ought to be, in our adopted relative terms of reference, and we know what inputs are required to produce the throughput, then we can easily calculate, for example, how many productive workers ought to be employed in the manufacturing industry if we are to produce what is required by our own efforts. We can express the number actually so employed as a percentage of the requirement. **Figure 5** shows the summary result.

Jasinowski, Hamrin, are you still there? Where's your crazy renaissance now? Of course, it is the earlier cost statement represented. We're capable of producing less than half of what we would have considered to be, perhaps, a decent standard of living just 28 years ago. Do you want to know why two have to work, and still do not produce the standard of living one of their parents, or grandparents, would have been accustomed to a generation ago? Well, there's the answer. We've destroyed the capability to do it. Do you want to address the systemic crisis that Jasinowski and Hamrin are covering up?

Forget about these bloated financial structures whose demise is already ordained. Take up the matter of how we are going to rebuild what we've lost, so that there might be successor generations of humans who come after us.

That's the whole manufacturing sector. We can do the same exercise for sub-sectors of manufacturing, to show where some of the capabilities we once had have disappeared.

The productivity of labor

Figure 6 shows operative employment requirements to meet production of 1967-style market baskets for the textile, shoe, steel, and non-electrical machinery industries. The percentages are the magnitudes by which employment would have to be increased to meet the production level required.

Let's restate the matter in a third way, to dispense with the insistence of those who say, "Well, I can understand what you say you've done. But you must realize that the whole exercise is invalid, because you are not taking account of the question of productivity improvements achieved with the aid of new technology. We've got Macintoshes and Apples, Pentiums and electronic spreadsheets, and other forms of computerized process control. We've got lemons, too."

Figure 7 answers them. The bars marked "per capita basis" represent required employment calculated on the basis of the per capita throughput required, multiplied by the 1967 per operative productivities for those outputs. The bars marked "per operative basis" are calculated by multiplying the annual throughput requirement, defined on the 1967 reference basis, by the per operative productivity in the year to which the estimates applied. What productivity increase? Therefore, what implied technological improvement? If technology had been improved, it ought to show up in a reduction of the labor cost of producing equivalent outputs. It doesn't. As a matter of fact, by the time we get to the late 1980s, the reverse is the case. The labor costs of producing equivalent output are actually increasing. Therefore, per operative productivity is falling.

FIGURE 7
Output required per operator, compared to actual levels
(percent of actual levels)

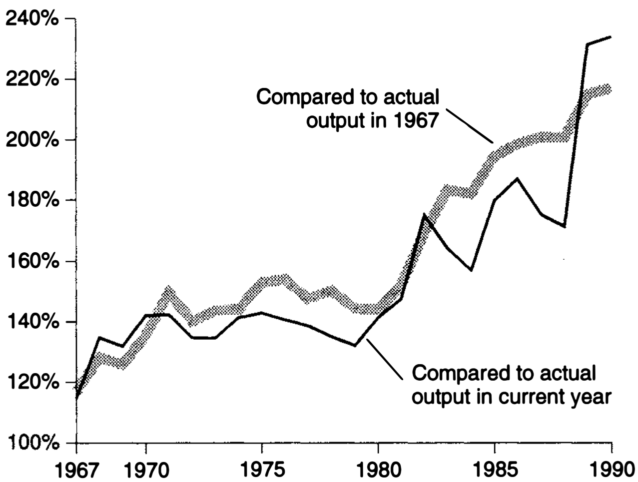
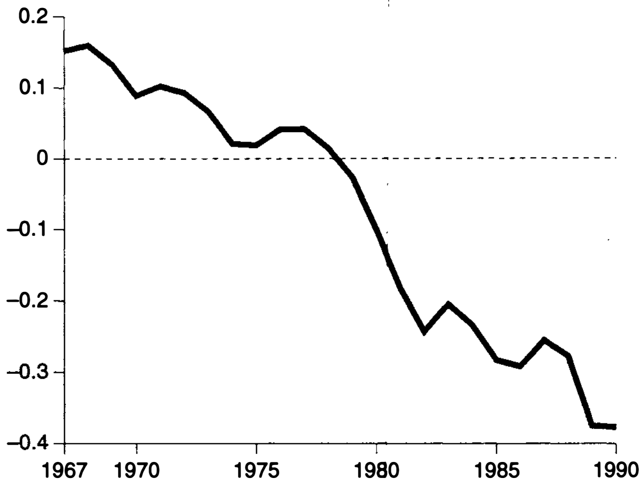


FIGURE 8
Financial profit ratio of the U.S. economy
(for unit value, see text)



The question of technological progress comes up in another way, since there's an absurdity involved in all this, of a different sort, but equally absurd, as the Jasinowski-Hamrin "locally generated profit" idiocy. Would anyone in their right mind go about today filling up a 1967 market basket using 1967 methods? Of course they wouldn't. We would need a combination of technological improvements and productive employment that would cheapen the labor cost of producing such a market basket, while also changing its contents. The changes introduced will necessarily change both the array of outputs, as well as the corresponding inputs, including, of course, the educational qualifications of employed labor.

However, such a 1967-type market basket would give us a standard against which to compare what we are doing, on a per capita basis, on a per operative basis, and so forth. Are we on the path to producing a better standard of living more cheaply than we did in 1967? And not just for ourselves, but for the rest of the world, since a modern standard of living is the correlative of the kind of culture which is a universal standard for all people.

The speculative bubble

Viewed in this way, there is no way that a debt-based financial bubble of usury and speculation can co-exist with human society. The debt bubble can only exist at the expense of human society, cancer-like, consuming its host, but also cancer-like, incapable of surviving without the host. The "bubble" is doomed out of its own mode of reproduction, and everything that is attached to it is also doomed.

Figure 8 represents an approximation of the financial profit ratio of the U.S. economy. That is to say, gross profits from manufacturing minus debt service, divided by direct costs (wages, materials, so-called new investment) inflated by the effective interest rate (debt service divided by total debt).

This is what the debt bubble has done to the profitability of the economy as a whole, thanks to the warmed-over adolescent or infantile thinking of people like Jasinowski and Hamrin, who insist that profits can grow, even as the costs of producing the profits are reduced. It ought to be clear that even as that ratio falls, the followers of Jasinowski and Hamrin will react with yet more savage assaults on the "costs" of maintaining human existence, in order to increase the profits from which debt service and other forms of usury are extracted. This is what is being fought out in the Congress, around welfare reform, entitlement spending, and these disgusting capital gains tax cut proposals. They will inevitably make that ratio worse, and will, equally inevitably, thereby accelerate the demise of their bubble. The less healthy tissue remains, the shorter the future prospects of the cancer become.

Could capabilities be generated to organize a real recovery *without* excising the cancerous debt bubble? Since the cancer grows by what it feeds on, the answer must be, "No, it can't be done."

This leaves just two choices: Either the debt bubble will destroy itself, or it will be put out of existence through a procedure comparable to a corporate Chapter 11 bankruptcy. There isn't any middle ground to cling to. Therefore, the sooner the credulous come to their senses about such nonsense as Jasinowski and Hamrin's, and the less tolerance there is for such drivelling, the better things will be for everyone.