

Deindustrialization in The United States¹

Elisa Dávalos López*



The service sector has become crucial to the U. S. economy.

THE PHENOMENON OF DEINDUSTRIALIZATION

The term “deindustrialization” is essentially defined as the decrease in the proportion of manufacturing in overall employment. The history of the term dates back to the 1970s in the United States, while its meaning has become more and more complex as the structure of world production becomes more and more sophisticated.²

Following up the causes identified at the time, we can see that what appeared on the scene were the relative loss of productivity in the United States, the advent of the service economy and the idea of sending production offshore, phenomena that have deepened and are still relevant today.³

Pioneering work, like that of Bluestone and Harrison, who published a book on the deindustrialization of America

in 1982, points to another important component: geographic location.⁴ At that time, analysts talked about the transfer of industry from the so-called Frost Belt to the Sun Belt; today, deindustrialization has permeated almost every corner of the country,⁵ but transferring business out of the country has become much more prevalent and includes white-collar workers.⁶

From the start, this issue has sparked great concern in different sectors of society. President George W. Bush commissioned the Department of Trade to write a Report on Manufacturing in the United States, reflecting presidential concern about the matter, even though during his campaign and the first months of his administration he had stated the opposite. Recently, the governor of Michigan said that his state, home to the auto industry, now had to diversify more since it had once again suffered the transfer of jobs offshore.⁷

The debate about deindustrialization is revving up again in the United States, but, as with any important debate, dif-

* Researcher at CISAN.

**U.S. deindustrialization
is caused fundamentally by manufacturing
productivity increases and the flight of industries
to countries with cheap labor costs is much
less important quantitatively in job losses.**

ferent points of view are being expressed: some say that deindustrialization is only a manifestation of healthy economic development, while others say that it is evidence of big problems that need solving.⁸

DEINDUSTRIALIZATION AND THE COMING
OF THE SERVICE ECONOMY

The service sector has grown due to factors like the overwhelming expansion of the financial sector and the new forms of industrial organization that foster the break-up of manufacturing by externalizing many processes and functions that used to be carried out in house and are now considered services. For example, previously, companies hired workers to re-design products, and now, they hire a specialized firm for this. The noticeable reduction in transaction costs made possible by the technological revolution stimulates this process, fostering outsourcing, that is, the fragmentation and externalization of production processes that can be done either inside the country or abroad. International outsourcing is commonly called offshoring.

On the other hand, the competition facing many manufacturing industries has led businessmen to change lanes and focus on services.

Another reason for this sector's growth is the change in demand patterns. From the consumer's point of view, Engel's Law stipulates that the relative amount of income an individual spends on food drops as his/her income increases. This is accompanied by the creation of an increasing number of services, for example, entertainment services. This means that people spend relatively less on goods than on services, particularly in developed countries (that is, there is greater income elasticity of demand for services than for goods, which in turn makes the service sector more dynamic).

In this scenario, we have to consider that the United States tends to increasingly develop its competitive advantages

with regard to handling productive and distributive networks. That is, it organizes itself through trans-border investment, productive, trade and collaborative relations to develop products, suppliers and markets in which different agents participate around central corporations.⁹ Today, in addition to the traditional components of a multinational corporation (head office and different associates like subsidiaries, branches, etc.), the corporation-network is made up of sub-contractors and stable suppliers, franchise holders and other independent units with which it has agreements, in addition to a complex system of strategic alliances with other business networks based in the same or a different nation.¹⁰

The service sector, then, has grown and has also absorbed part of the activities that used to be carried out by industry and are now contracted out as services and therefore classified as such. The service sector has become the most dynamic in job creation and makes up more than three-quarters of the gross domestic product.

It is important to clarify that if we look at absolute figures, employment in the manufacturing sector has grown considerably and only looks low when compared to the service sector.

DEINDUSTRIALIZATION
AND OFFSHORING

Moving industries or phases of the production process offshore has been one of the arguments about deindustrialization most frequently used in the U.S. media, frequently making it the guilty party and the enemy to be vanquished.

For example, after pointing to the alarming figures for job losses, the *New Labor Forum* states that the fight for manufacturing is the battle for the heart and soul of the United States.¹¹ The publication pinpoints the deindustrialization problem with companies like Nike, which have never manufactured a single pair of shoes inside the country. The authors directly blame offshoring for deindustrialization and propose developing a national strategy to fight it by canceling free trade agreements until the trade deficit is eliminated, demanding labor standard compliance by any country with which trade agreements are signed and through a tax policy favoring internal production and annulling any measure that would promote offshoring. The World Socialist Web Site makes proposals in the same vein.¹²

TABLE 1
IMPORTANCE OF INTERNAL AND EXTERNAL FACTORS IN EXPLAINING
THE DROP IN INDUSTRIAL EMPLOYMENT

	1970-1994		1992-2002	
	INTERNAL FACTORS	EXTERNAL FACTORS	INTERNAL FACTORS	EXTERNAL FACTORS
European Union	84%	15%	72%	25%
United States	81%	12%	90%	10%
Japan	90%	-20%	60%	30%

Source: Olivier Debande, "De-industrialisation," *EIB Papers*, vol. 11, no. 1, 2006.

Despite this, some analysts come to the exact opposite conclusion. Among them are Boulhol and Fontagné, Rowthorn and Ramaswamy.¹³ Using the latter's findings, Olivier Debande developed a table (see table 1).

As the table shows, in the two periods (1970-1994 and 1992-2002), the overwhelming majority of job losses in industry was due to internal factors. In the United States, external factors caused fewer job losses in both periods.

Among the internal factors, we have productivity growth in industry, which in the United States has performed quite well. Another factor, though of much less weight, is the growth of demand for services which increased faster than the demand for goods, in accordance with Engel's Law.

Foreign trade is central among the external factors, but specifically trade with countries with low wages, precisely because that trade can reflect productive connections abroad and, therefore, substitute domestic production with foreign production, revealing the existence of global productive chains.

What we find in Table 1 is that deindustrialization is caused fundamentally by manufacturing productivity increases and that the flight of industries to countries with cheap labor costs is much less important quantitatively.

Therefore, observing the relatively low level of trade with low-wage countries, insistent union arguments that the external sector is the cause of job losses lose weight. The fundamental reasons seem to lie in entirely internal factors; while job flight is an indisputable reality, its importance is much less than is frequently argued.

Another aspect we can examine is the number of jobs created by multinational corporations abroad in proportion to the number of jobs created in the United States.

As Table 2 shows, the relative number of jobs created by multinational corporations abroad, in addition to being quite

low, does not show growth worthy of concern. From 1995 to 2004, they only increased 0.4 percent and, in fact, if we compare 2000 to 2005, there is actually a 0.6-percent decline.

Thus, job flight due to direct foreign investment is not a trend that can explain the problem of deindustrialization in the United States.

TABLE 2
VALUE ADDED AND JOBS CREATED BY U.S.
NON-BANK AFFILIATES WORLDWIDE
(AS A PERCENTAGE OF JOBS CREATED IN THE U.S.)

Year	% of private sector employment
1995	4.0
2000	5.0
2005	4.4

Source: Department of Commerce, "U.S. Affiliates of Foreign Companies. Operations in 2003," *Survey of Current Business*, August 2007.

CONCLUSIONS

U.S. society is facing a new situation linked to the new industrial model, largely responsible for productivity growth in manufacturing, the increasing weight of the service sector, new forms of organization of work and the rise of offshoring in the international economy.

This model has created new labor conditions in the United States and is the basic cause of deindustrialization, manifested in different ways.¹⁴

Contrary to what unions are saying, foreign trade with developing countries is relatively unimportant in explaining

deindustrialization, despite the fact that the figure is growing given the specific weight of China in U.S. foreign trade. Equally, we have seen that U.S. foreign direct investment abroad is responsible for a very small part of job loss. However, internal factors like manufacturing productivity growth play a large part in deindustrialization.

It is also important to consider that U.S. deindustrialization stems from common problems that every country confronts in the global economy. It is a systemic, worldwide process that takes different forms according to the conditions for economic development, comparative and competitive advantages and the insertion of each country in the international division of labor. **MM**

NOTES

- ¹ I would like to thank Dagoberto González for his support in writing this article.
- ² It should be pointed out that deindustrialization is not limited to the United States, but the U.S. has led the process: employment in manufacturing there dropped from 28 percent to 16 percent between 1965 and 1994. In Japan, it dropped from 27 percent to 23 percent between 1973 and 1994; in the EU-15, from 30 to 20 percent between 1970 and 1994. Recently this process has sharpened among the Asian Tigers. <http://www.imf.org/external/pubs/ft/issues10/>, consulted May 10, 2007.
- ³ See Rosa Cusminsky, *¿Se desindustrializa Estados Unidos?* (Mexico City: CISAN-UNAM, 1993).
- ⁴ Barry Bluestone and Bennett Harrison, *The Deindustrialization of America* (Washington, D.C.: Basic Books, 1982).
- ⁵ A list of studies of plant closures throughout the country can be found at http://findarticles.com/articles/mi_qa3880_n17182416/print
- ⁶ In the 1980s, lay-offs hit workers in manufacturing hard, but in the 1990s, many white-collar workers were also affected. The country's largest corporations had enormous lay-offs. In 1991, General Motors laid off 70,000 workers, while at the end of the decade, IBM let 63,000 go, and AT&T, 40,000. In the spring of 1996, *New York Times* research on downsizing showed that 43 million jobs had been lost in the United States since 1979. In almost one-third of all households, at least one family member had lost a job. See "Just Like a Death: The Closing of the International Paper Company Mill in Mobile, Alabama and the Deindustrialization of the South, 2000-2005," *Alabama Review* at http://findarticles.com/p/articles/mi_qa3880/is_200601/ai_nl7182416/print, consulted May 3, 2007.
- ⁷ <http://www.thecrimson.com/article.aspx?ref=509890>, consulted May 12, 2007.
- ⁸ Recently, the New Labor Forum has stated that this process has deepened over recent years, mentioning that from 1998 to date, more than 3.4 million manufacturing jobs have been lost, more than half in unionized plants. In addition, since 1999, more than 40,000 manufacturing firms have closed. In each sub-sector, almost everyone has suffered two-digit unemployment: 48 percent in textiles, almost 30 percent in computing, electronic parts and primary basic metals, and 23 percent in machinery.

The publication also points out that high-level jobs have been lost: since January 2001: 725,000 professional and information services jobs. Many firms are making record offshore investments in research and development, engineering and design. Bob Baugh and Joel Yudken, "Is Deindustrialization Inevitable?", *New Labor Forum Online*, May 14, 2007.

- ⁹ Alejandro Dabat, Miguel Ángel Rivera and James Wilkie, comps., *Globalización y cambio tecnológico. México en el nuevo ciclo industrial mundial* (Mexico City: Universidad de Guadalajara/UNAM/UCLA/Juan Pablos Editor, 2004).
- ¹⁰ Ibid.
- ¹¹ Baugh and Yudken, op. cit.
- ¹² See, for example Barry Grey, "Report on U.S.: The Bush Administration and the Global Decline of American Capitalism," at http://www.wsws.org/articles/2006/mar2006/bgp1-m04_prn.shtml, consulted May 12, 2007.
- ¹³ Hervé Boulhol and Lionel Fontagné, *Deindustrialization and the Fear of Relocations in Industry* (Paris: CEPII, 2007).
- ¹⁴ Alejandro Dabat, Miguel Ángel Rivera and James Wilkie, op. cit.

FURTHER READING

- El Financiero*, "China prueba suerte en el mundo aeronáutico," March 20, 2007, p. 35.
- Gambrill, Monica, "NAFTA and the Mexican Maquiladora Industry: Implications for Canada," C. Paraskevopoulos, R. Grinspun and G. Eaton, eds., *Economic Integration in the Americas* (Northampton, Massachusetts: Edward Elgar Publishing, 1996).
- Grey, Barry, "Report on U.S.: The Bush Administration and the Global Decline of American Capitalism", at http://www.wsws.org/articles/2006/mar2006/bgp1-m04_prn.shtml (May 10, 2007).
- McKenzie, Richard, "The Emergence of the Service Economy: Fact or Artifact?" *Policy Analysis* no. 93, 1987.
- Michalet, Charles, "Las fases de integración del capital en la economía mundial," *Lecturas de Economía Internacional*, UAM-X, mimeographed paper.
- Palazuelos, Enrique, *La estructura económica de los Estados Unidos* (Madrid: Síntesis, 2003).
- Polasky, S., "The Employment Consequences of NAFTA" (Washington, D.C.). Testimony Submitted to the Senate Subcommittee on International Trade of the Committee on Finance, September 11, 2006.
- Rivera Ríos, Miguel Ángel, *Capitalismo informático, cambio tecnológico y desarrollo nacional* (Mexico City, Guadalajara, Los Angeles: UNAM-JP-UCLA-PROFMEX, 2007).
- Rowthorn, Robert and Ramana Ramaswamy, "Deindustrialization: Its Causes and Implications," *Economic Issues* no. 10, IMF, September 1997.
- "Growth, Trade and Deindustrialization", *IMF Staff Papers*, vol. 46, no. 1, March 1999.
- Williams, Glen, "Not for Export. Toward a Political Economy of Canada's Arrested Industrialization," *Contemporary Sociology*, vol. 14, no. 2 (May 1985), Toronto, pp. 204-205.

WEBSITES

- www.CanadianTopics.org
- www.offshoreexperts.com/index.cfm/fa/buyer.ourcing_company/p/193501 (May 12, 2007)
- <http://www.imf.org/external/pubs/ft/issues10/> (May 10, 2007)
- <http://www.questia.com/googleScholar.qst;jsessionid=GszSB9Qc73cvvj>