The Deindustrialization of America

Plant Closings, Community Abandonment, and the Dismantling of Basic Industry

Barry Bluestone & Bennett Harrison

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Capital vs. Community

ON JUNE 30, 1980, *Business Week* finally sounded the alarm. The decline of the American economy had become so serious that the nation's leading business journal decided to devote an entire special issue to detailing a comprehensive plan for revitalizing the U. S. economy. In a tone of uncharacteristic dismay, the editors concluded:

> The U. S. economy must undergo a fundamental change if it is to retain a measure of economic viability let alone leadership in the remaining 20 years of this century. The goal must be nothing less than the reindustrialization of America. A conscious effort to rebuild America's productive capacity is the only real alternative to the precipitous loss of competitiveness of the last 15 years, of which this year's wave of plant closings across the continent is only the most vivid manifestation.[1]

The average person did not have to read *Business Week* to know that America was in trouble. Since the early 1970s every day had brought yet another sign of how bad things were becoming.

In Detroit, Polish factory workers, who had been among the hardest hit by wave after wave of automobile plant shutdowns for three straight years, were told that the world's largest car company was willing to build a new factory and to give them jobs that they desperately needed —only if the city was willing to tear down their neighborhood to create space for the new facility.

In Pittsburgh, the U. S. Steel Corporation called a press conference to announce that it would permanently close down fourteen mills in eight states (principally in Pennsylvania and Ohio) within the year, thus laying off over 13,000 workers. Its reward was an $850 million tax break from the federal government, which it later put toward the down payment on the purchase of Marathon Oil.

In southern California, the conglomerate that acquired a nationally known cosmetics firm decided to shut down its entire Los Angeles operation and move it to Tennessee. Although the new acquisition was profitable in Los Angeles, it was not profitable *enough*, according to the standards established by the new owners.

By the beginning of the 1980s, every newscast seemed to contain a story about a plant shutting down, another thousand jobs disappearing from a community, or the frustrations of workers unable to find full-time jobs utilizing their skills and providing enough income to support their families. Despite the ballyhoo surrounding the opening of new high-tech firms in the North and the West, and the expansion of boomtowns in the South, nearly everyone was coming to recognize that something was dangerously amiss. The system that seemed so capable of providing a steadily growing standard of living during the turbulent 1960s had become totally incapable of providing people with a simple home mortgage, a stable job, or a secure pension.

One thing is certain. The economy has, for all practical purposes, ceased to grow. During the 1960s, overall real U. S. economic growth averaged 4.1 percent per year. As a result, the nation's gross national product (GNP) expanded by a hefty 50 percent over the decade. This permitted the average family to enjoy one third more real, spendable income at the end of the decade than at the beginning. People complained about the war and persistent inequality, but—with the notable exception of millions of black, brown, and teenaged workers—few among the great middle class could grumble about the rate at which we were becoming, in Galbraith's words, "the affluent society."

The 1970s were different altogether. GNP grew by only 2.9 percent per year. By 1979 the typical family with a $20,000 annual income had only 7 percent more real purchasing power than it had a full decade earlier. Ten years had brought a mere $25 more per week in purchasing power for the average family. Moreover, every bit of this growth came between 1970 and 1973, before the first OPEC price shock. Since 1973 there has been virtually *no* real income gain. Thus even before the 1980s began, the American standard of living no longer placed us first among the developed nations of the world. In fact, the best we could do was tenth, not counting the Middle Eastern oil sheikdoms of Kuwait and Abu Dhabi. By 1980 Switzerland, Sweden, Denmark, West Germany, Luxembourg, Iceland, France, the Netherlands, and Belgium had all surpassed the United States in per capita GNP.[2]

That the average Swiss or Danish family enjoys a higher standard of living than that of the average American is disturbing to a generation raised on the unchallenged perception of America as Number One. But the U. S. standard of living does not need to be compared to that of the Swiss or the Danish to recognize the depth of the economic crisis. When he was campaigning for the presidency in 1976, Jimmy Carter suggested the use of a "misery index" to judge just how badly the economy was performing. To compute the misery index, you simply add the inflation and unemployment rates. In 1980 it reached nearly 20 percent, nearly three times its average level during the 1960s.[3] Today the mortgage rate might be included in the misery index. If so, the index of misery now common in communities all over the country would be closer to 40 percent—a quantum leap in this measure of distress.

Adding to the economic despair is America's apparent inability to compete in the global marketplace. Our share of the world's manufactured exports has fallen from more than 25 percent to less than 17 percent in the last twenty years, and relative to our strongest competitors, it could easily be argued that we are being rapidly pushed to the sidelines. It is disturbing to learn, for example, that the 1980 trade deficit with Japan reached over $10 billion. Even more shocking is a listing of the two countries' major exports. In terms of dollar value, the number one Japanese product sold to America was passenger motor vehicles, followed by iron and steel plates, truck and tractor chassis, radios, motorbikes, and audio and video tape recorders. In contrast, America's top seven exports to Japan, in order of dollar value, were soybeans, corn, fir logs, hemlock logs, coal, wheat, and cotton.[4] The trade deficit hides the disconcerting fact that, at least with respect to our most important competitor, the United States has been reduced to an agricultural nation trying desperately to compete with the manufacturer of the world's most sophisticated capital and consumer goods.

Deindustrializing America

Underlying the high rates of unemployment, the sluggish growth in the domestic economy, and the failure to successfully compete in the international market is the deindustrialization of America. By *deindustrialization* is meant a widespread, systematic disinvestment in the nation's basic productive capacity. Controversial as it may be, the essential problem with the U. S. economy can be traced to the way capital—in the forms of financial resources and of real plant and equipment—has been diverted from productive investment in our basic national industries into unproductive speculation, mergers and acquisitions, and foreign investment. Left behind are shuttered factories, displaced workers, and a newly emerging group of ghost towns.

The traces of widespread disinvestment show up in an aging capital stock at home and in the diversion of investment resources to American corporate subsidiaries operating abroad. In 1979 the average age of the capital stock, from sprawling factories to intricate machine tools, was 7.1 years.[5] Hence, much of our productive equipment was put in place when oil prices were much lower. As a consequence, much of the capital stock is energy-inefficient and, for this reason, outmoded. In the steel industry, the capital situation is particularly serious. According to industry experts, the steel companies are modernizing their equipment at less than half the rate needed to keep plants up to date on a twenty-five-year cycle.[6] Across all sectors in the economy, the average rate of new investment has not even kept pace with the growth in the labor force.[7]

This does *not* mean that corporate managers are refusing to invest, but only that they are refusing to invest in the basic industries of the country. U. S. Steel has billions to spend, but instead of rebuilding steel capacity, it paid $6 billion to acquire Marathon Oil of Ohio. General Electric is expanding its capital stock, but not in the United States. During the 1970s, GE expanded its worldwide payroll by 5,000, but it did so by adding 30,000 foreign jobs and reducing its U. S. employment by 25,000. RCA Corporation followed the same strategy, cutting its U. S. employment by 14,000 and increasing its foreign work force by 19,000.[8] It is the same in the depressed automobile industry. Ford Motor Company reports that more than 40 percent of its capital budget will be spent outside the United States, while General Motors has given up its plans to build a new multibillion-dollar plant in Kansas City, Missouri, and instead has shifted its capital spending to one of its facilities in Spain.[9]

The movement of capital can take many forms that progress from the virtually invisible to the drastic and dramatic. The most subtle policy consists of the redirection of profits generated from a particular plant's operations without management tampering with the establishment itself. For example, the managers of a multibranch corporation may decide to reallocate profits earned from a particular plant's operations to new facilities or for new product development. Such "milking" of a profitable plant turns out to be especially common among conglomerates, whose managers are trained to treat certain of their acquired subsidiaries as "cash cows" (a term they themselves use). The older plant is not run down or dismantled in the short run. However, the loss of control over retained earnings increases the subsidiary's chances of encountering trouble in the future. A step beyond the milking operation is the conscious decision to reallocate capital by running down a plant simply by failing to replace worn out or obsolete machinery. In this case, management not only uses the profits from an existing operation, but its depreciation reserves as well, for investment elsewhere. Of course, this type of capital reallocation produces a self-fulfilling prophesy. A plant that is not quite productive enough to meet the profit targets set by management will very soon be unable to make any profit at all.

Another method for shifting capital involves physically relocating some of the equipment from one facility to another, or selling off some of the old establishment's capital stock to specialized jobbers. The plant remains in operation for the time being, but often at a much lower level of production. Indeed, the equipment may not even be moved or sold, but simply turned off when the managers decide to subcontract (or "outsource") to another firm part of the work that used to be done in the plant. The physical capital is still there, but from the point of view of production this is also a case of disinvestment.

Finally, management can move capital by completely shutting down a plant. It can sell as many of the old facility's assets as possible. In a few cases it may even load some of the machinery onto flatcars or moving vans and set up essentially the same operation elsewhere. This last option earned the epithet "runaway shop" in the 1930s, and again in the 1950s, when industries such as shoes, textiles, and apparel left New England for the lower-wage, non-unionized South.

A Trivial Problem?

Because so much disinvestment is invisible to all but those who work on the shop floor or to the managers who actually plan it, there has been a tendency by academic researchers and journalists to recognize deindustrialization only when the plywood goes up over the windows and the "Out of Business" sign is posted, or when a plant is actually relocated physically to another community elsewhere in the country or abroad.

As a consequence of this narrow definition of the problem, there has been a tendency to depict the widespread concern over capital flight and disinvestment as essentially groundless.[10] And, indeed, if only plants that are physically moved from one place to another are counted, the problem does appear trivial. Using data from the Dun and Bradstreet Company (D & B), a well-known private business credit-rating service, David Birch of M.I.T. has shown that between 1969 and 1976 only about 2 percent of all annual employment change in the private sector in the United States was the result of runaway shops.[11]

Perhaps because of such statistics on capital "flight," some analysts believe that the pace of capital transfer (particularly out of the older "sunset" industries) has not been rapid *enough.* M.I.T. economist Lester Thurow is probably the most highly respected advocate of this position:

> To have the labor and capital to move into new areas we must be able to withdraw labor and capital from old, low-productivity areas. But . . . disinvestment is what our economy does worst. Instead of adopting public policies to speed up the process of disinvestment, we act to slow it down with protection and subsidies for the inefficient.[12]

Thurow believes that unless we learn to disinvest more rapidly, America will never again be able to compete effectively in the international marketplace.

This idea is certainly not a new one. Forty years ago Joseph Schumpeter wrote that capitalist economies can only evolve to higher levels of prosperity through a "process of Creative Destruction."[13] According to Schumpeter, a healthy economy requires perpetual reincarnation. The old industrial order, like a forest with its cycle of decay and renewal, must undergo constant transformation to provide the material sustenance for fresh enterprise. If this fails to occur, the economy and the entire society surrounding it will stagnate and eventually crumble. In essence, burgeoning modern industries, such as those that produce sophisticated mini-computers or fast-food chains that annually spew out billions of identical cheeseburgers, arise from the remains of presumably obsolete textile, steel, and automobile plants. Disinvestment, and lots of it, provides the only engine for reinvestment somewhere else.

Is it possible that America's real problem is not *enough* disinvestment? Certainly, looking no further than Birch's famous 2 percent figure, one would probably have to agree with Thurow. But looking just below the surface and taking into account *all* the ways that capital moves, a very different conclusion is in order.

Using the same data base that Birch uses, one finds the amount of job loss due to disinvestment is anything but trivial. In fact, once all the ways that a plant (or store or office) can be closed down (or made obsolete) are accounted for, it is evident that somewhere between 32 and 38 *million* jobs were lost during the 1970s as the direct result of private disinvestment in American business. The chances of even a large, established manufacturing plant closing down within a given seven-year period during the last decade exceeded 30 percent. The life of smaller firms has become so precarious that only two out of five establishments that existed in 1969 were still in business under the same owners in 1976. As a result of plant closings in New England industries such as shoes and apparel, anywhere from two to four jobs were eliminated for every single new job created by new capital invested elsewhere in the region. And this disinvestment phenomenon was hardly limited to the old mill-based industries. In the New England aircraft industry, 3.6 jobs were destroyed for every new one created; in the metalworking machine industry the ratio was 1.6 to 1.0.

Moreover, contrary to popular belief, the deindustrialization process has not been limited to the "Frostbelt." Almost *half* the jobs lost to plant closings (and relocations) during the 1970s occurred in the Sun-