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They say we don't make stuff anymore

By Roger Lewis

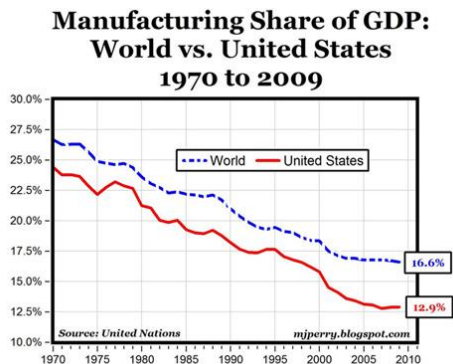
A widely held view is that we no longer manufacture very much in America and that most manufacturing now happens in countries with low (cheap) labor costs. A look at the landscape of Conway - empty or converted buildings that were once manufacturing plants such as International bus factory, Nucor, Baldwin Piano, SAS shoes, and Universal Nolan - reinforces that perception. In small towns that dot the Arkansas map, garment factories are shuttered.

In 2001 there were 105 businesses in Faulkner County classified as manufacturers by the Department of Labor. They employed 6,537 workers. By 2010 the number of manufacturers actually rose to 109 but the number of employees dropped by nearly 50% to 3,395.

What happened here in America?

A combination of factors caused the decline. In a global economy manufactured goods with a high labor cost relocate to low labor cost countries. Another factor is that we just don't need as much stuff. Today's manufactured items are of better quality and last longer - when was the last time you replaced a belt or spark plugs in your car? Item longevity leads to over capacity of manufacturing which results in a consolidation of facilities. Manufacturing is much more efficient and requires fewer people. Better transportation logistics permit outsourcing of components to highly efficient specialized manufacturers. Because of these factors we do not spend as much of our income on manufactured goods. Instead, we spend more on communication services-cell phones, cable TV, and the internet - entertainment and also on prepared foods (eating out).

Manufacturing accounted for approximately 50% of our gross domestic production in 1950 but by 2009 it dropped to 9.2%. Over time manufacturing has become a smaller portion of the global economy. It was replaced by services, information technology and entertainment. The following graph illustrates how manufacturing as a percentage of gross domestic production has declined worldwide and in the U.S.



John Keefe writing for CBS Money Watch cites data from **IHS Global Insight**, an economics consulting firm, on the ranking of manufacturing output of the leading

economies, and to his surprise, the U.S. still manufactures more stuff than anyone else — \$1.7 trillion in 2009, compared to \$1.3 trillion from China. The U.S. manufactures more than Japan and Germany together. However, China is closing the gap and will overtake us in a few years.

The U.S. is the world leader in many manufacturing sectors with companies like Caterpillar, Hewlett Packard and Boeing. The U.S. auto industry ranks 3rd in the world with approximately 7.8 million cars produced in 2010. The U.S. is the largest exporter of military arms with \$1.22 trillion for 2010, accounts for 76% of total world market.

The Federal Reserve Bank of Chicago in 1950 reported that 31% of non farm workers in the U.S. were employed in manufacturing. By 2009 that declined to 9.1%. Yet the value of goods produced has increased at an annual rate of 3.4% and has increased by 6-fold from 1950. This is a result of increased productivity. The increase in both the number and quality of machinery over time, along with technological improvements in production processes and inventory management, gave rise to greater manufacturing output at lower unit cost. *What took 1,000 workers to produce in 1950 could be produced by 184 workers in 2009.*

Faulkner County has been very fortunate to replace manufacturing jobs with jobs in other sectors. While manufacturing has had a 50% job loss in since 2001, total employment for Faulkner County has increased 18%. In 2001, 1919 firms employed 33,975 workers but in 2010 2700 firms employed 40,021. The largest gain was in the natural resources sector, the result of natural gas exploration. Natural resources had an approximate 1400% gain going from 7 firms in 2001 with 58 workers to 47 firms with 896 workers in 2010. Gas exploration has produced increases in other business sectors as well such as transportation (hauling sand, gravel and water) and other service industries. The second sector of largest gain was educational and health services which went from 222 employers with 3863 workers to 428 employers with 6017 workers. This gain of 2159 workers represents a 55% growth. Many of the employer gains were new clinics and doctor practices, many of the employee gains were in schools and colleges.

To conclude: manufacturing in the U.S. has not declined as generally perceived. The U.S. remains the world leader in manufacturing for the time being, producing more durable goods than ever, but with much less labor. The dramatic increase in efficiency, productivity and quality caused the number of people employed in manufacturing to plummet. Manufactured goods shifted toward high-end goods such as machinery, airplanes and supercomputers. Even though manufacturing increased, other business sectors, particularly health care, services, communication and energy production grew at a much more rapid rate which caused a dramatic decline in manufacturing's percentage of gross domestic production. This has happened both in the U.S. and worldwide.

More information on Faulkner County economy can be found at Pulse of Conway website, pulseofconway.com