How Junk Economists Help The Rich Impoverish The Working Class

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Last week, I explained how economists and policymakers destroyed our economy for the sake of short-term corporate profits from jobs offshoring and financial deregulation.

That same week Business Week published an article, "Factory Jobs Are Gone. Get Over It," by Charles Kenny.

Kenny expresses the view of establishment economists, such as Brookings Institute economist Justin Wolfers who wants to know "What's with the political fetish for manufacturing? Are factories really so awesome?"

"Not really," Kenny says. Citing Eric Fisher of the Cleveland Federal Reserve Bank, Kenny reports that wages rise most rapidly in those states that most quickly abandon manufacturing. Kenny cites Gary Hufbauer, once an academic colleague of mine now at the Peterson Institute, who claims that the 2009 tariffs applied to Chinese tire imports cost US consumers $1 billion in higher prices and 3,731 lost retail jobs. Note the precision of the jobs loss, right down to the last 31.

In support of the argument that Americans are better off without manufacturing jobs, Kenny cites MIT and Harvard academic economists to the effect that there is no evidence that manufacturing tends to cluster, thus disputing the view that there are economies from manufacturers tending to congregate in the same areas where they benefit from an experienced work force and established supply chains.

Perhaps the MIT and Harvard economists did their study after US manufacturing centers became shells of their former selves and Detroit lost 25% of its population, Gary Indiana lost 22% of its population, Flint Michigan lost 18% of its population, Cleveland lost 17% of its population, and St Louis lost 20% of its population. If the economists' studies were done after manufacturing had departed, they would not find manufacturing concentrated in locations where it formerly flourished. MIT and Harvard economists might find this an idea too large to comprehend.

Kenny's answer to the displaced manufacturing workers is–you guessed it–jobs training. He cites MIT economist David Autor who thinks the problem is the federal government only spends $1 on retraining for every $400 that it spends on supporting displaced workers.

These arguments are so absurd as to be mindless. Let's examine them. What jobs are the displaced manufacturing workers to be trained for? Why, service jobs, of course. Kenny actually thinks that "service industries–hotels, hospitals, media, and accounting–have taken up the slack." (I don't know where he gets media and accounting from; scant sign of such jobs are found in the payroll jobs reports.) Moreover, service jobs have certainly not taken up the slack as the rising rate of long-term unemployment and declining labor force participation rate prove.

Nontradable service sector jobs such as hotel maids, hospital orderlies, retail clerks, waitresses and bartenders are low productivity, low value-added jobs that cannot pay incomes comparable to manufacturing jobs. The long term decline in real median family income relates to the movement offshore of manufacturing jobs and tradable professional service jobs, such as software engineering, IT, research and design.

Moreover, domestic service jobs do not produce exportable goods and services. A country without manufactures has little with which to earn foreign exchange in order to pay for its imports of its shoes, clothing, manufactured goods, high-technology products, Apple computers, and increasingly food. Therefore, that country's trade deficit widens as each year it owes more and more to foreigners.

A country whose best known products are fraudulent and toxic financial instruments and GMO foods that no one wants cannot pay for its imports except by signing over its existing assets. The foreigners buy up US assets with their trade surpluses. Consequently, income from rents, interest, dividends, capital gains, and profits leave US pockets for foreign pockets. It is a safe bet that Hufbauer did not include any of these costs or maybe even the loss of US tire workers' wages and tire manufacturers' profits when he concluded that trying to save US tire manufacturing jobs cost more than it was worth.

Eric Fisher's argument that the highest wage growth is found in areas where higher productivity manufacturing jobs are most rapidly replaced with lower productivity domestic service jobs is beyond absurd. (Possibly Fisher did not say this; I'm taking Kenny's word for it.) It has always been a foundation of labor economics that workers are paid the value of their contribution to output. Manufacturing employees working with technology embodied in plant and equipment produce more value per man hour than maids changing sheets and bartenders mixing drinks.

In my book, The Failure of Laissez Faire Capitalism And Economic Dissolution Of The West (2013), I point out the obvious mistakes in "studies" by Matthew Slaughter, a former member of the President's Council of Economic Advisors, and Harvard professor Michael Porter. These academic economists conclude on the basis of extraordinary errors and ignorance of empirical facts, that jobs offshoring is good for Americans. They were able to reach this conclusion despite the absence of any visibility of this good, and they hold to this absurd conclusion despite the inability of a "recovery" (or lack of one) that is 4.5 years old to get off the ground and get employment back up to where it was six years ago. They hold to their "education is the answer" solution despite the growing percentage of university graduates who cannot find employment.

Michael Hudson is certainly correct to call economists purveyors of "junk economics." Indeed, I wonder if economists even have junk value. But they are well paid by Wall Street and the offshoring corporations.

What the Brookings Institute's Justin Wolfers needs to ask himself is: what is the redefinition of economic development? For my lifetime the definition of a developed economy is an industrialized economy. It has always been "the industrialized countries" that occupy the status of "developed economies," contrasted with "undeveloped countries," "developing countries," and "emerging economies." How is an economy developed if it is shedding its industry and manufacturing? This is the reverse of the development process. Without realizing it, Kenny describes the unravelling of the US economy when he describes the decline of US manufacturing from 28 percent of US GDP in 1953 to 12% in 2012. The US now has the work force of a third world country, with the vast bulk of the population employed in lowly paid domestic services. The US work force no longer looks like the work force of a developed country. It looks like third world India's work force of three decades ago.

Kenny and junk economists speak of the decline of US manufacturing jobs as if they are not being offshored to countries where labor is cheap but replaced by automation. No doubt there has been automation, and more ways of replacing humans with machines will be found. But if manufacturing jobs are things of the past, why is China's sudden and rapid rise to economic power accompanied by 100 million manufacturing jobs? Apple computers are not made in China by robots. If robots are making Apple computers, it would be just as cheap to make the computers in the US. The Chinese manufacturing workforce is almost the size of the entire US work force.

US companies employ Americans to market the products that are produced abroad for sale in the US. This is why US corporations employ Americans mainly in service jobs. Foreigners make the goods, and Americans sell them.

Economic development has always been about acquiring the capital, technology, business knowledge, and trained workforce to make valuable things that can be sold at home and abroad. US capital and technology are being located abroad, and the trained domestic workforce is disappearing from disuse and abandonment. The US is falling out of the ranks of the industrialized countries and is on the path to becoming an undeveloped economy.

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