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The Long Decline of the American Economy

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The official position on the cause of the current financial downturn is that it was caused by the reckless practices of financial institutions and the failure of regulatory bodies, and it is likely that these were the proximate causes, but they were not the ultimate cause. Americans, unfortunately, are rarely willing to search for ultimate causes or do anything about them when they are found.

In the 1980s, I was living in a suburb of Washington, DC. One evening, a friend and I were walking the streets of Georgetown when we met a group of Japanese taking pictures of a building they had just purchased. They asked us to take some photographs of them in front of it, which we did. A few blocks further along, we observed a group of teenagers drumming on plastic household buckets. The kids were very good drummers, but I pointed out to my friend that after WW2, the youths of the Caribbean altered abandoned oil drums into musical instruments of various ranges and created a new and unique musical genre—steel drums. Later over dinner, my friend and I discussed what appeared to be a serious decline in America's economic fortunes and culture.

We were not alone in noting this decline. There was much talk and writing at the time about how the Japanese seemed to be on the verge of buying America and how the quality of products and services delivered by American companies had been outstripped by foreign competitors, especially the Japanese. TQM (Total Quality Management) programs, made up of approaches to management that originated in Japanese industry in the 1950s, were highly touted. Having observed Japan's success employing quality control techniques, western companies started to take their own quality initiatives. TQM, developed as a catchall phrase for the broad spectrum of quality-focused strategies and programs. The most well-known proponents of TQM are Deming, Juran, Ishikawa, Feigenbaum, and the ISO (International Standards Organization).

The success of these programs has been slim. Numerous studies have shown that implementing a quality standard rarely improves a company's performance, and my own personal experience validates that. I was involved in ISO standard implementations in three companies. It was obvious to me that none would work, and the first company went bust within three years of acquiring certification, the second company also no longer exists, having had its assets sold off in a bankruptcy proceeding, and the third is currently in the process of being sold. During this last implementation, I asked to be relieved of my work on it because the project was so shoddy, I didn't want to be associated with it.

Today TQM talk has almost entirely disappeared from popular literature. It has disappeared along with factories and jobs. TQM citations in the business literature began a continuous long-term decline in 1992. There has also been a marked decline in TQM consulting firms. "Commitment to TQM appears to have been only skin deep."

Various reasons are cited for this failure, because anyone familiar with the standards recognizes that the best practices advocated themselves are not faulty. The reasons cited mainly have to do with American managerial attitudes. The implementations were ‘top-down,’ imposed from above rather than ‘bottom-up’ so rank and file employees never had a stake in them, managements created no follow-up programs to measure effectiveness, etc. And all of these reasons are also proximate causes for their failure.

But quality in TQM is often defined as the totality of features and characteristics of a product or service that bear on its ability to satisfy the expectations of consumers. In other words, quality is “giving the customer what he wants.” In pre-implementation training, consultants often used McDonalds as an example. Every McDonalds’ hamburger, no matter where made or bought is identical. When this example was presented to rank and file employees, they scoffed. They often asked, “What do we need all these new policies and procedures for? We’re already producing junk.” It was not that the policy was being imposed ‘top-down’ that alienated the rank and file employees, it was the program’s goal. The employees recognized that merely producing junk more consistent would not stem the economy’s decline, since junk never competes well with quality. What really caused the economy’s decline was the business model adopted by American companies, touted by America’s orthodox economists, and aided and abetted by the government.

Recently, TechRepublic summarized a piece published by Forrester:

Most . . . managers are stumped when it comes to capturing the right . . . metrics and then effectively conveying their relevance to management. Decision makers tend to focus on the one metric they understand: The cost . . . and how to reduce it. This Forrester White Paper reveals the five essential metrics for effective . . . managing. . . .

1. investment alignment to business strategy,

2. business value of . . . investments,

3. . . . budget balance,

4. service level excellence,

5. and operational excellence.

These five metrics should form the core of a . . . performance scorecard.

But this advice is pie in the sky. Decision makers focus on the only metric they care about—the cost and how to reduce it, not the only one they understand.

Ideally, companies exist to provide products and services to people. If the products and services are good, the companies prosper; if they aren’t, the companies fail. That’s risky, so American companies inverted this model. They fed the public the notion, which has rarely been questioned, that a company’s responsibility is solely the financial welfare of its stockholders. Products and services are no longer the goal of business; they are merely means to profit. That reducing quality leads to greater profits quickly became evident. One fewer olive in each jar, one flimsy part in a complex device, one inefficient procedure in a manufacturing process, built-in obsolescence, built-in short product life-cycles, engineered high failure rates. The American quality standard became, “Junk”! For more examples, see my paper, America on the Dulling Edge.

To ensure that American consumers would buy this junk, a number of other policies were advanced—declining employee wages so that consumers could not afford to buy more expensive imported produces, unenforcement of immigration laws and the introduction of special visas such as H1B1s so that the workforce would expand putting even further downward pressure on wages, restrictions on the ability of American workers to organize, and finally the offshoring of production. None of these policies could have succeeded without the complicit cooperation of America's orthodox economists and government.

But logically, this business model could not be sustained. As the incomes of workers drop, so does their consuming ability. To mask this result, easy consumer credit at high interest was introduced, but that would eventually bring about consumer defaults. So even the bankruptcy law was changed to make it more difficult for debtors to be relieved of their debts. GNP was calculated so that all of this consumer debt was counted as productive spending which masked the economy's decline. Sooner or later, the current economic collapse was inevitable. The nation's negative balance of payments became huge as did its deficit. Foreign nations have far more American dollars to spend than does the vast portion of Americans themselves. This business model has bankrupted the nation.

So now American companies are hoping to sell their foreign-manufactured junk in foreign countries. But this hope involves two problematical scenarios. It can only succeed if foreign countries also adopt this junky model, and only so long as the countries where the junk is being made don't realize that they can manufacture and market the junk without the help of American companies. The likelihood of either of these is slim.

First, most of the developed nations in Europe have strong labor movements which not only can and often have shut down all economic activity in their nations. So many of the policies described above which have enabled the American model to succeed domestically are not likely to be adopted elsewhere. Second, China, at least, has already discovered that it can market its products in developing countries itself.

So when the American power elite speak of a rebounding economy, they are whistling Dixie in the Yukon. There is no economy left to rebound. It has been dismantled and exported. The ultimate cause of America's collapse is the entrenched, rigid, faulty ideologies that our nation's leaders have adopted. These ideologies placed America on the road to ruin. Foreign policies, especially wars paid for by borrowing, have increased the speed of travel on this road. And as incomes decrease, so do our freedoms. Future historians will someday ask, who lost America? The answer will be the American business community, its economists, and its politicians who have adopted rigid ideologies. That answer will serve as America's epitaph.

John Kozy *is a retired professor of philosophy and logic who blogs on social, political, and economic issues. After serving in the U.S. Army during the Korean War, he spent 20 years as a university professor and another 20 years working as a writer. He has published a textbook in formal logic commercially, in academic journals and a small number of commercial magazines, and has written a number of guest editorials for newspapers. His on-line pieces can be found on http://www.jkozy.com/ and he can be emailed from that site's homepage.*

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