

WHY AMERICAN INDUSTRY (AND ITS FUTURE) MATTERS



Image from ExploreHistory.com

Ian has a great piece up at FDL on the financial sector's problems, their genesis, and the Obama Administration's conventional wisdom, status quo, manner of dealing with them:

I have become increasingly concerned that some in the Obama administration are treating this economic crisis as a "black swan" event. That is a very rare, random and unpredictable event. The key thing about black swans is that they are random and unpredictable and you can't stop them from happening, you can only create your systems so that they can handle them if they occur.

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But, of course, the economic and financial crisis unfolding right now was not random. It was predicted by multiple people, and it was predicted because of policy steps taken by government and widely known private actions.

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All of which is to say the crisis was caused by a number of factors. It was not random. It was predictable and predicted. If we just muddle through this current meltdown—spend a lot of money bailing out the banks, throw some stimulus around—and don't fix the fundamentally flawed incentives and structures of the system, it will likely happen again.

Ian was discussing the financial sector, but it strikes me that the same applies for America's industrial and manufacturing sector. The United

States was built on the backs of hard working people that planted and built things, sweated, toiled and prevailed. In the post-modern hustle and flow of the digital and financial whiz bang world, we seem to both forget and neglect the industry, manufacturing and workers that put us here. I want to focus, and open a discussion, on that.

I am not expert on the issues and economics that underpin this area, so I am going to rely on the collective wisdom here to engage and flesh out the discussion. I do, however, want to open that discussion on a familiar note, the American automotive industry. Roland Jones at MSNBC.com yesterday did an interesting piece as to why bankruptcy is not a viable option for General Motors:

"If these companies went into bankruptcy right now, in exactly the position they are in today, they would be liquidated because no one out there would supply them with the financing they need to get through bankruptcy," Mark Zandi, chief economist with Moody's Economy.com, told CNBC Wednesday.

That would mean a few million jobs lost, Zandi said, which would be "cataclysmic" for the U.S. economy, already shedding about a million jobs every two months. A better option would be to give the automakers the extra funding they need to stay in business until March 31. Then the government could prepare for a bankruptcy later on with provisions for securing financing to bring them through Chapter 11 and guarantee vehicle warranties.

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An outright liquidation of either of the companies – which would bring massive unemployment, lost tax revenues, and would place the burden of the automakers' pension liabilities on the government's shoulders – would cost the

government more, according to Rebecca Lindland, director of the Automotive Group at consultancy IHS Global Insight.

“If taxpayers are complaining now, wait until the pension obligations are swapped over – it will cost a lot more than the \$39 billion the automakers are asking for now,” she said. “So in any scenario, it’s not as if the taxpayer’s going to get away with this scot-free. With so many workers losing their jobs there would be a lot of federal aid required.”

This is an aspect of the auto mess that is consistently given short shrift. We are worried about our economy, but keep trying to patch it up with financial jiggering, and don’t seem to be paying attention to the real foundation. That is how we got to this point, not how we will get out of it. It is time for a wake up call in that regard. One person who has been speaking out on this is author William Holstein who has a new book, *Why GM Matters*, on just this phenomenon, using General Motors as a microcosm of the larger problem:

Holstein is using GM as a symbol for whether it makes sense for the U.S. to bother with manufacturing. That might sound odd for a country that for now probably remains the world’s largest manufacturing economy. But Holstein argues that our political and financial leaders don’t get manufacturing, and don’t think it’s important. This is the crux of the Main Street vs. Wall Street debate, and it is shaping up as the core fight of economic policy over the next few years: do we get a justifiable return if we invest in making things, or should we focus on information-driven innovation?

Holstein seems to represent the argument that information-driven companies – such

as financial services firms – simply cannot sustain our economy by themselves, and we must continue to be able to manufacture. In fact, he does directly argue that GM can now manufacture head to head with Toyota, and he might be right.

This is a discussion that is important to have at least side by side with, if not in fact primary to, the discussion on the Wall Street, finance and housing bailouts. Sometime in the next day or so, I plan to bring Holstein in for a live chat discussion about his book and the greater state and future of American industry. I hope one and all will join in, but in the meantime, let's get the discussion going.