

# ENJOY A VALENTINE'S DAY SAMPLER



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It's difficult lately for me to sit down and spend time on a blogpost. I manage a handful of minutes here and there to do reading or research. An email may take hours to draft.

But there's too much juicy stuff floating around deserving more attention. I'm going to gather content as I see it and aggregate it into a post when I have time, rather than let them slip by. Perhaps you can make more of them than I can.

- MIT Technology Review acknowledges the dawn of a new age in Welcome to the Malware-Industrial Complex. I'm rather surprised at the tone of this piece; it's not au courant, rather a bit behind the times since the MIC launched more than a handful of years ago. Two important points emerge: 1) Zero-day exploits are being traded like weaponry—think very hard about the source of these exploits and ask yourself why they are tolerated in government computing environments, let alone any other production environment; 2) This new age is the military face of the paradigm shift from the industrial to the information age. Weapons are information; they are no longer separate from the weapons themselves. With this in mind, the last two grafs of this article display the already-

anachronistic thinking of the author and his sources.

- Syracuse University MA/PhD student Seth Long performs a rather fascinating analysis on alleged cop killer Christopher Dorner's manifesto. But equally fascinating is his earlier analysis on Ted Kaczynski's Unabomber manifesto. Compare the two assessments, and then ask yourself what any blogger's online writings might say about them if Long's analytical process is eventually automated with algorithms. Scary, hmm?

- Really great long read at Bloomberg Businessweek on the unmasking of a Chinese hacker by a Dell Computers malware expert. This is a snapshot of asymmetric warfare in progress; it's not as if China has not told us rather candidly (and more than a decade ago) they would engage us in this manner as well as in other non-internet battlefields. Any surprise on the part of U.S. government officials at this point is utterly ridiculous—it's either feigned or it's should-get-another-day-job stupidity.

- I'm so annoyed by this long read in Aeon Magazine—a really great mag, by the way—that I may yet muster the time to write something longer. Author Damien Walter is rather specious in his identification of a new "creator culture" and its necessity to society's continued success. The problem isn't that we need to adopt and nurture a new creator culture; it's that we killed the one we had quite willingly over the last 25-35 years by offshoring production and the subsequent commodification of goods. We allowed corporations and their one-percenter shareholders to tell us that getting our hands dirty through craftsmanship and in manufacturing was bad (mostly bad for their profit margins). We've become a culture that doesn't fix anything; we buy replacements made overseas in third world countries. We've lost our can-do spirit along with this shift, and only recently have both the economic crisis and a new hipster-hobbyist ethos encouraged a resurgence of the

do-it-yourself handyperson. Unless we're conscious of our role in killing creativity, nurturing it again through supporting Etsy and Maker Faires is merely temporary relief from the crush of profit-driven consumerism.

- But perhaps all of this will be moot tomorrow if the cosmos decides to make a bank shot with asteroid 2012 DA14. This "small" asteroid will fly within 17,200 miles of earth tomorrow afternoon. This is awfully bloody close—close enough that scientists say disruption of cellphone and other satellite service is not impossible, but unlikely. That's a whisker's breadth, in cosmic scale. Best to check in tomorrow afternoon after 3:00 pm CST to see if we're still here. See you then.

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## **DHS: HAPPY TO SPEND \$\$ TO KEEP PEOPLE OUT, BUT NOT ILLICIT TRADE**

A few weeks ago, a nonpartisan group revealed that the Federal government spends more on immigration enforcement than all other law enforcement combined. Altogether it spends \$18 billion a year—most of it to keep people out of the country and prosecute and deport those who get in without documentation.

The United States spends more money on immigration enforcement – nearly \$18 billion in the 2012 fiscal year – than on its other law enforcement agencies combined, according to a report released Monday from the nonpartisan Migration Policy Institute.

That spending went to U.S. Immigration and Customs Enforcement, Customs and

Border Protection and US-Visit, a program that helps states and localities identify undocumented immigrants.

By contrast, the U.S. spent \$14.4 billion – combined – on its other prime law enforcement agencies: the FBI, Secret Service, Drug Enforcement Administration, U.S. Marshal Service and Bureau of Alcohol, Tobacco, Firearms and Explosives.

Today, Janet Napolitano basically told Congress to fuck itself and its demand that all shipping containers bound for the US be screened. Apparently, the one time \$16 billion price tag is too much to ensure that our trade cargo undergoes the same scrutiny actual people do.

Homeland Security Secretary Janet Napolitano on Thursday suggested that her department does not plan on meeting a congressional requirement that all foreign cargo shipped to the United States be scanned for dangerous materials that could be used in a terrorism attack.

Congress in 2007 approved a law that requires all ship cargo bound for the United States be screened for weapon-usable nuclear and radioactive materials and other dangerous substances before the vessels sails away from foreign seaports. After missing an initial deadline last July to come into compliance with the law, the Homeland Security Department now has until July 2014 to meet the mandate.

“I actually looked into this issue very thoroughly,” Napolitano said during a Wilson Center event here.

Last spring, Napolitano told lawmakers it would cost \$16 billion to deploy screening technology at all of the approximately 700 international seaports

that send cargo to the United States.

“It’s one of those things where as we have grown and become more knowledgeable about how to really manage risk, we have recognized that mandates like that sound very good but in point of fact are extraordinarily expensive and that there are better and more efficient ways to accomplish the same result,” Napolitano said on Thursday.

Mind you, what shipping container screening is being done is largely included in that \$18 billion a year figure, which includes Customs and Border Patrol’s budget of \$3.5 billion. So fulfilling the Congressional mandate would only inflate the larger number.

Moreover, I’m willing to entertain the notion that it doesn’t make sense to scan each and every shipping container.

You know? In the same way it simply doesn’t make sense to make each and every airplane passenger take off her shoes and go through a backscatter machine?

But the disparity in what DHS is willing to spend to keep people out of the country as compared to what it is willing to spend to keep contraband trade and weapons out is telling.

It makes it clear, first of all, that DHS doesn’t believe it has to fulfill every Congressional mandate, including the one that mandates DHS round up 400,000 people a year to deport. I’m not saying I agree with that; I’m noting that DHS chooses when to follow the requirements Congress sets.

It also makes clear that importers would never be asked to undergo the same inconvenience and cost that actual people do (ultimately, importers should be paying the cost to ensure their shipping containers are safe, not taxpayers).

It appears, then, DHS is far more interested in

keeping undocumented people—whether they present a risk to the US or not—out of this country than it is keep contraband trade out.

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## **GOVERNMENT TEAT-SUCKING BANKSTER, STEVEN RATTNER, CALLS AUTO BAILOUT “UN-AMERICAN”**

I’m sure someone thought it was a good idea to trot out Steven Rattner to spin the government’s announced plan to sell its GM stake.

But I don’t know how anyone thought a bankster—and particularly this bankster—could say this and still wield any credibility.

From Washington’s point of view, divesting its remaining shares will end an uncomfortable and distinctly un-American period of government ownership in a major industrial company.

Sure. Rattner places this sentiment in “Washington’s point of view.” Still, consider the messenger.

After all, he barely mentions here—as he did in his book—that this was not just a bailout of some industrial companies. It was also a bailout of two finance companies, Chrysler Finance and GMAC (he mentions that the government still owns Ally/GMAC, but still calls the scorecard, “nearly complete”). As such, it was also the bailout of the Private Equity firm, Cerberus, that had spent the previous years stripping Chrysler in the hopes of retaining just the finance arms.

He also neglects to mention that the government still pursues the un-American policy of treating banks according to a different set of rules, not only providing them free money, but seemingly exempting them from all laws.

Finally, he shows no self-awareness of his own history, including paying kickbacks so his firm could make big money off of New York State (for which he, like all banksters, got a mere wrist-slap).

I'm not saying the government should hold onto its GM stake forever (though unlike Rattner, executive compensation is the last reason I'd cite to applaud this sale). But having someone like Rattner call government intervention in purportedly capitalist companies un-American only perpetuates the idea that industrial companies should have to abide by so-called rules of capitalism that the titans of capitalism, the banksters, have all but discarded.

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## THE AMERIMAC

Presumably because of Apple's rocky PR and financial results of late, Tim Cook gave two purportedly "Exclusive!" interviews, to NBC News and Businessweek. The big takeaway from both "Exclusives!" was the same, however: that Apple will move some production of the Mac back to the US next year.

You were instrumental in getting Apple out of the manufacturing business. What would it take to get Apple back to building things and, specifically, back to building things in the U.S.? It's not known well that the engine for the iPhone and iPad is made in the U.S., and many of these are also exported—the engine, the processor. The glass is made

in Kentucky. And next year we are going to bring some production to the U.S. on the Mac. We've been working on this for a long time, and we were getting closer to it. It will happen in 2013. We're really proud of it. We could have quickly maybe done just assembly, but it's broader because we wanted to do something more substantial. So we'll literally invest over \$100 million. This doesn't mean that Apple will do it ourselves, but we'll be working with people, and we'll be investing our money.

Thus far, I have not seen any acknowledgment that this move comes just two months after Lenovo made a similar announcement, that it was going to bring production of formerly IBM products back to Tim Cook's old stomping grounds in IBM's former production hub of North Carolina.

And so, perhaps predictably, the analysis of the move has been rather shallow. NBC first focuses on the jobs crisis here, and only later quotes Cook's comments about skills (which echoes Steve Jobs' old explanation for why Apple produced in China).

Given that, why doesn't Apple leave China entirely and manufacture everything in the U.S.? "It's not so much about price, it's about the skills," Cook told Williams.

Echoing a theme stated by many other companies, Cook said he believes the U.S. education system is failing to produce enough people with the skills needed for modern manufacturing processes. He added, however, that he hopes the new Mac project will help spur others to bring manufacturing back to the U.S.

"The consumer electronics world was



really never here,” Cook said. “It’s a matter of starting it here.”

Businessweek also focuses on job creation (though Cook makes it clear that he doesn’t think Apple has to create manufacturing jobs, just jobs, which is consistent with his suggestion that someone else will be assembling the Mac in the US).

On that subject, it’s 2012. You’re a multinational. What are the obligations of an American company to be patriotic, and what do you think that means in a globalized era?

(Pause.) That’s a really good question. I do feel we have a responsibility to create jobs. I don’t think we have a responsibility to create a *certain* kind of job, but I think we do have a responsibility to create jobs.

Matt Yglesias purports to look for an explanation of Apple’s onshoring in this excellent Charles Fishman article on the trend. But with utterly typical cherry-picking from him, he finds the explanation in the 125 words that Fishman devotes to lower US wages rather than the remaining 5,375 words in the article, which describe how teamwork—teamwork including line workers—leads to innovation and higher quality.

Which is too bad, because Fishman’s article and Cook’s comments to Businessweek set up a pretty interesting dialogue about innovation.

Before I look at that, though, let me point to this other comment from Cook, which may provide a simpler explanation for the insourcing.

The PC space [market] is also large, but the market itself isn’t growing. However, our share of it is relatively low, so there’s a lot of headroom for us.

We know Lenovo is insourcing to better provide customized ThinkPads quickly. Here, Cook suggests he sees a way to pick up market share in the PC space. I would suggest it likely the Mac insourcing relates to this perceived market opportunity, and would further suggest that Apple's reasons might mirror Lenovo's own: to deliver better responsiveness to US-based customers, if not actual customization (though that would be news).

But that's not what I find so interesting about the way the Fishman article and Cook interview dialogue.

Fishman's article largely focuses on why GE has brought production back to its Appliance City in Louisville, KY. And while more docile unions and energy costs are two reasons GE has made the move, the biggest benefit is that when entire teams—including line workers—focused on products, they could build better quality move innovative products more cheaply. Fishman uses GE's GeoSpring water heater as an example.

The GeoSpring in particular, Nolan says, has "a lot of copper tubing in the top." Assembly-line workers "have to route the tubes, and they have to braze them—weld them—to seal the joints. How that tubing is designed really affects how hard or easy it is to solder the joints. And how hard or easy it is to do the soldering affects the quality, of course. And the quality of those welds is literally the quality of the hot-water heater." Although the GeoSpring had been conceived, designed, marketed, and managed from Louisville, it was made in China, and, Nolan says, "We really had zero communications into the assembly line there."

To get ready to make the GeoSpring at Appliance Park, in January 2010 GE set up a space on the factory floor of Building 2 to design the new assembly line. No products had been manufactured

in Building 2 since 1998. An old GE range assembly line still stood there; after a feud with union workers, that line had been shut down so abruptly that the GeoSpring team found finished oven doors still hanging from conveyors 30 feet overhead. The GeoSpring project had a more collegial tone. The “big room” had design engineers assigned to it, but also manufacturing engineers, line workers, staff from marketing and sales—no management-labor friction, just a group of people with different perspectives, tackling a crucial problem.

“We got the water heater into the room, and the first thing [the group] said to us was ‘This is just a mess,’ ” Nolan recalls. Not the product, but the design. “In terms of manufacturability, it was terrible.”

The GeoSpring suffered from an advanced-technology version of “IKEA Syndrome.” It was so hard to assemble that no one in the big room wanted to make it. Instead they redesigned it. The team eliminated 1 out of every 5 parts. It cut the cost of the materials by 25 percent. It eliminated the tangle of tubing that couldn’t be easily welded. By considering the workers who would have to put the water heater together—in fact, by having those workers right at the table, looking at the design as it was drawn—the team cut the work hours necessary to assemble the water heater from 10 hours in China to two hours in Louisville.

In the end, says Nolan, not one part was the same.

So a funny thing happened to the GeoSpring on the way from the cheap Chinese factory to the expensive Kentucky factory: The material cost went

down. The labor required to make it went down. The quality went up. Even the energy efficiency went up. [my emphasis]

Compare Fishman's description of that team process to the language Cook uses to describe how Apple innovates.

Creativity is not a process, right? It's people who care enough to keep thinking about something until they find the simplest way to do it. They keep thinking about something until they find the best way to do it. It's caring enough to call the person who works over in this other area, because you think the two of you can do something fantastic that hasn't been thought of before. It's providing an environment where that feeds off each other and grows.

So just to be clear, I wouldn't call that a process. Creativity and innovation are something you can't flowchart out. Some things you can, and we do, and we're very disciplined in those areas. But creativity isn't one of those. A lot of companies have innovation departments, and this is always a sign that something is wrong when you have a VP of innovation or something. You know, put a for-sale sign on the door. (*Laughs.*)

Everybody in our company is responsible to be innovative, whether they're doing operational work or product work or customer service work. So in terms of the pressure, all of us put a great deal of pressure on ourselves.

[snip]

I wouldn't say we don't have meetings. I wouldn't go that far. I'm talking about how the kernels of ideas are born. We want ideas coming from all of our 80,000

people, not five or three. A much smaller number of people have to decide and edit and move forward, but you want ideas coming from everywhere. You want people to explore. So that's what I was talking about before. [my emphasis]

Both are saying every single employee can and should be part of innovation.

Now look at the number Cook uses: 80,000. He may say every Apple employee has a responsibility to innovate, he wants ideas coming from "all of our 80,000 people." But that leaves out a million people that—GE is discovering—can help to drive innovation, the line workers, because Apple doesn't employ the million people who manufacture its products.

To his credit, Cook doesn't treat Apple's Foxconn employees entirely like drones. He boasts about Apple's efforts to make life better for its contracted manufacturing employees.

If you look at our website, we're publishing working hours for almost a million people across our supply chain. Nobody else is doing this. We are very much managing this at a micro level. And you know, maybe as important as that, we are training workers on their rights. We have trained 2 million people, and we've brought college courses to the factories where people can begin to earn their degrees.

So we're doing a number of things that I think are really great, really different, and industry-leading.

And, tellingly, a move that had been spun as an effort to better monitor the manufacturing process—sleeping in Foxconn's employee dorms—turns out to have been an effort to get closer to the manufacturing process.

We have executives that have stayed in

dorms. It's not unusual. Honestly, this wasn't to see what life was like in a dorm. It was that we worked so closely with these manufacturing partners and in the manufacturing plants [that] it's convenient to do. And actually several of our people wind up doing that.

In addition, we have hundreds of people that reside in China in the plants on a full-time basis that are helping with manufacturing and working on manufacturing process and so forth. The truth is we couldn't innovate at the speed we do if we viewed manufacturing as this disconnected thing. It's integrated. So it's a part of our process.

But it's not—at least not yet—part of what Apple considers integral to Apple, those 80,000 employees expected to push innovation. (And of course Cook refers to manufacturing as a process but insists creativity is not one.)

At least according to Fishman, seeing manufacturing as separate from the innovation at the core of the business misses out on key opportunities.

For years, too many American companies have treated the actual manufacturing of their products as incidental—a generic, interchangeable, relatively low-value part of their business. If you spec'd the item closely enough—if you created a good design, and your drawings had precision; if you hired a cheap factory and inspected for quality—who cared what language the factory workers spoke?

This sounded good in theory. In practice, it was like writing a cookbook without ever cooking.

[snip]

GE is rediscovering that how you run the

factory is a technology in and of itself. Your factory is really a laboratory—and the R&D that can happen there, if you pay attention, is worth a lot more to the bottom line than the cost savings of cheap labor in someone else's factory.

[snip]

Bringing jobs back to Appliance Park solves a problem. It is sparking a wave of fresh innovation in GE's appliances—every major appliance line has been redesigned or will be in the next two years—and the experience of “big room” redesign, involving a whole team, is itself inspiring further, faster advances.

In fact, insourcing solves a whole bundle of problems—it simplifies transportation; it gives people confidence in the competitive security of their ideas; it lets companies manage costs with real transparency and close to home; it means a company can be as nimble as it wants to be, because the Pacific Ocean isn't standing in the way of getting the right product to the right customer.

Now, it's unclear whether Apple needs—or would benefit—from using its factories as laboratories (though some of Apple's most famous screw-ups might have been avoided by the process). But it's telling that at least one of the two things Cook points to as made in the US—the iPhone glass—was developed in that kind of manufacturing environment (albeit many years ago). And the other US-made component—the Samsung processor made in Austin—probably has to do with security, given how cutthroat Apple and Samsung also compete on smart phones.

But who knows? Once Apple starts making the ameriMac, it may learn what GE has: that having

a million badly paid workers in China isn't worth the trouble—and more importantly, the trade-offs in innovation—that it causes.

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## **BANGLADESHI GARMENT FIRE: DOWNSTREAM EFFECT OF A WALMART ECONOMY?**

One of the things hot on the nets yesterday was Peter Suderman's pushback against the anti-WalMart action that has been progressing over the last week, culminating in organized protests at numerous stores across the country on Black Friday. Even Alan Grayson got in on the WalMart Thanksgiving protest mix.

But Suderman, loosing followup thoughts after an appearance regarding the subject on Up With Chris Hayes caused a storm. Here is a Storify with all 17 of Suderman's Tweet thoughts. Suderman, who is a Libertarian and certainly no progressive, nevertheless makes some pretty cogent arguments, and the real gist can be summed up in just a few of the Tweets:

So the benefits of Walmart's substantially lower prices to the lowest earning cohort are huge, especially on food.

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Obama adviser Jason Furman has estimated the welfare boost of Walmart's low food prices alone is about \$50b a year.

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Paying Walmart's workers more would mean the money has to come from somewhere. But where?

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Raise prices to pay for increased wages



and you cut into the store's huge low-price benefits for the poor. It's regressive.

Suderman goes on to note that WalMart workers are effectively within the norm for their business sector as to pay and benefits.

My purpose here is not to get into a who is right and who is wrong, the protesters or Suderman, I actually think there is relative merit to both sides and will leave resolution of that discussion for others.

My point is that the discussion is bigger than than simply the plight of the WalMart retail workers in the US. WalMart is such a huge buyer and seller that it is the avatar of modern low cost retailing and what it does has reverberations not just in the US life and economy, but that of the world. Ezra Klein came close to going there in a reponse piece to Suderman's take:

But Wal-Mart's effect on its own employees pales in comparison to its effect on its supply chain's workers, and its competitors' workers. As Barry Lynn argued in his Harper's essay "Breaking the Chain," and as Charles Fishman demonstrated in his book "The Wal-Mart Effect," the often unacknowledged consequence of Wal-Mart is that it has reshaped a huge swath of the American, and perhaps even the global, economy.

Not "perhaps" the global economy Ezra, definitively the global economy. WalMart sets the tone for high volume mass merchandizers in the US market. Their cut throat and efficient management of the supply chain laid the ground, and still does, for much of the market – Target, Costco, Kohls, the latest JC Penney, The GAP, etc. What WalMart innovated has become the dominant model and gives the lead to the rest of

the segment. And one of the prime ways WalMart is able to sell so low is mass purchasing from dirt cheap overseas producers, and that makes WalMart a driver of foreign economies as well, and in some of the poorest and most fragile areas.

The pervasive effects of this giant WalMart global market effect were driven home in a particularly gruesome way last night. A garment factory in Bangladesh burned, and consumed over 112 lives in the process, with the death toll clearly expected to rise:

At least 112 people were killed in a fire that raced through a multi-story garment factory just outside of Bangladesh's capital, an official said Sunday.

The blaze broke out at the seven-story factory operated by Tazreen Fashions late Saturday. By Sunday morning, firefighters had recovered 100 bodies, fire department Operations Director Maj. Mohammad Mahbub told The Associated Press.

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He said the fire broke out on the ground floor, which was used as a warehouse, and spread quickly to the upper floors.

"The factory had three staircases, and all of them were down through the ground floor," Mahbub said. "So the workers could not come out when the fire engulfed the building."

"Had there been at least one emergency exit through outside the factory, the casualties would have been much lower," he said.

And what type of garments does Tazreen make you ask? WalMart garments it seems. While the Washington Post AP report linked and cited above notes that the local factories make garments for "Wal-Mart, JC Penney, H&M, Marks & Spencer,

Carrefour and Tesco", further research seems to indicate a direct relationship between Tazreen and WalMart. Now, let's be clear, the report at the link is from 2010 and does not necessarily mean that there was current production for WalMart at Tazreen, and even if there was, it certainly does not mean WalMart has any direct responsibility. It should be noted that it appears WalMart was more than aware of the safety problems at Tazreen Fashions and did nothing more than issue a cover your ass meaningless safety notice, but did not stop placing production orders.

Further, it should be noted that there are a lot of garment factories in Bangladesh, up to 4,000 according to the Post article above. And there is a long and tragic history of deadly fires in them. Here is one from 2010; here is another from 2006. Here is a 2001 report in the New York Times delineating the intersection of the Bangladeshi garment industry, fire and throw away treatment of workers' lives.

What happened last night is not a one off exception in the Bangladeshi garment business, it is closer to the rule. And it is fueled by the demand for cheap at all human cost product by the WalMart led business sector. Again, to be fair, just as there are competing arguments in the Suderman/protesters views as to US WalMart retail employees, there is another side of the Bangladeshi garment coin. As deplorable as the manufacturing conditions in Bangladesh are, because of it Bangladesh actually has an economy. It may not be first world, but it is a marked improvement over the life depicted in decades past.

And here is where Suderman's arguments run smack into the Bangladeshi plight. Suderman noted that the marginal extra dollar may not do much for the average American WalMart retail worker:

Erase the Walmart CEO's entire salary,  
and you can raise average hourly wages  
by just a penny or so.

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Erase the entire Walton family fortune and you get an average \$1/hour boost to Walmart workers.

For the sake of argument, let's assume Suderman is right that the marginal boost won't make that huge a difference for the average worker (and leave aside for the moment the benefit from all that extra money in the economy). Even if you assume the extra marginal dollar may not do that much here, think what it would do in Bangladesh where garment workers live, and die at alarming rates, on incomes as low as \$37 per month? The labor is so cheap in Bangladesh that China is starting to outsource work there! That extra bit of money in the hands of the workers in Bangladesh could make a world of difference in their safety and quality of life.

These conditions are perpetuated by the low cost penny pinching WalMart business model:

Ready-made garments account for 80 per cent of the country's \$24bn annual exports.

Haque said that labour groups he spoke to claimed that factories "are simply not equipped to the safety standards that are required to meet the demands of Western brands".

"If you speak to garment managers, they say that they are under pressure to produce as much clothes as possible with the least amount of money," he said.

"And so they say in these circumstances, safety isn't always the priority."

"The priority here is to produce as much clothes as possible."

I have no idea what the fix or answer to these problems and incongruities are. Maybe there isn't one. But I do think the equation is a lot more complex than people like Suderman and Ezra Klein let on. The effects of the WalMart economy

go a lot further downstream than US retail employees. The Triangle Shirtwaist Fire of 1911, where 146 souls perished, served as a wake up call for these types of labor practices in the US. The Tazreen Fashions garment fire may well match or eclipse that death toll by the time it is all said and done. Perhaps it, too, should serve as a wake up call as to the human cost of the WalMart business model.

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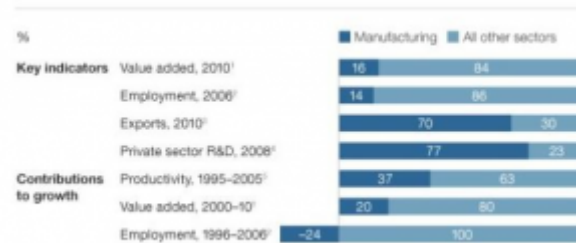
## **WHY DOES MATT YGLESIAS HATE EXPORTS, INNOVATION, AND PRODUCTIVITY GROWTH?**

I was interested to read this post from Matt Yglesias, which purports to prove that “nothing will bring back manufacturing employment.” Yglesias’ logic is that overall manufacturing employment is falling, largely because of more automation, and so we should stop pushing manufacturing in this country because it doesn’t get us the nice things in life. Here’s his key graf, which I’ll return to.

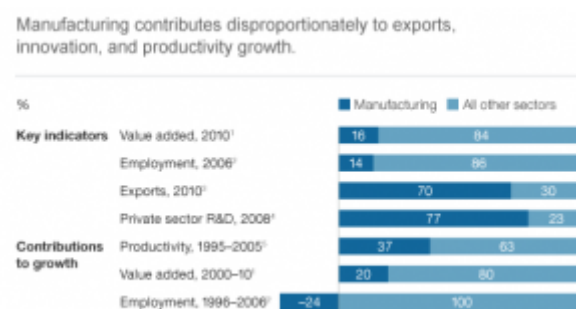
If you think about what the typical American family needs more of, it’s not manufactured goods. People need cures for illness and educational opportunities for their kids. They need more time to spend on leisure activities and with their family. They need jobs they enjoy. The idea of promoting more widespread affordability of health care services by boosting the share of the population that works in factories is a bizarre Rube Goldberg mechanism compared to directly focusing on improving the

health care sector's ability to deliver useful treatment to people.

Before I get there, though, compare the graphic he uses for his post:



And the one in the McKinsey report he claims supports his argument:



See what he left out? The bit where his chosen source says,

Manufacturing contributes disproportionately to exports, innovation, and productivity growth.

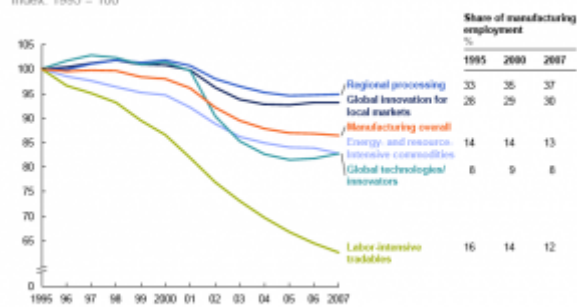
That is, Yglesias stripped McKinsey's title describing how important manufacturing is to a successful economy, including one that (if workers have some kind of workplace power, which is a big if) contributes to them having time to spend with their families and enjoyable jobs.

Here's the graphic he should have used, showing that labor intensive manufacturing has nose-dived, while showing a decline—with a more recent slight up-turn—in more innovative manufacturing, and a decline then plateau in a number of other manufacturing categories.

Exhibit E4

**Manufacturing employment in advanced economies has declined across all groups but has fallen most in the labor-intensive tradables group**

Manufacturing employment by group in selected advanced economies, 1995–2007<sup>1</sup>  
Index: 1995 = 100



<sup>1</sup> Sample of 17 advanced economies: EU-15, Japan, and United States.  
NOTE: Numbers may not sum due to rounding.  
SOURCE: EU KLEMS, OECD, McKinsey Global Institute analysis

And, as the text of the report makes clear, these labor intensive jobs haven't just been outsourced; they've also been automated. That's Yglesias' point: this one kind of manufacturing is declining, and not just in the US.

That is, there's a teeny part of the report that supports Yglesias' point: these labor intensive jobs—which are different from manufacturing jobs, generally!—aren't coming back.

But Yglesias has made those labor intensive manufacturing jobs stand-in for all of manufacturing, all while relying on a report that repeatedly insists that manufacturing is not monolithic. To be fair, I think Yglesias may actually believe manufacturing consists solely of those labor intensive jobs (he doesn't consider, for example, that a key part of innovation in medical treatment involves medical devices and diagnostic machines that have to be—you guessed it!—manufactured, and are done so much better in close proximity to the treatment they deliver).

Underlying Yglesias' treatment of labor intensive manufacturing as a stand-in for all manufacturing is a straw man argument he suggests—he does not voice it explicitly, but it's the only way his formulation on the social value of manufacturing makes sense.

Manufacturing = only icky manufacturing jobs = no intrinsic benefit to society = poor policy investment

Now, as Yglesias' source shows, manufacturing also includes a bunch of high tech jobs involving tailoring products to consumer needs. Those jobs are on the upswing, particularly in developed economies, as manufacturing focuses more on customization. They bring the kind of productivity improvements—for customers—that align with Yglesias' description of all that is good in life.

As the McKinsey report also shows, manufacturing leads to and supports service jobs.

Manufacturing companies rely on a multitude of service providers to produce their goods. These include telecom and travel services to connect workers in global production networks, logistics providers, banks, and IT service providers. We estimate that 4.7 million US service sector jobs depend on business from manufacturers. If we count those and one million primary resources jobs related to manufacturing (e.g., iron ore mining), total manufacturing-related employment in the United States would be 17.2 million, versus 11.5 million in official data in 2010.

So while those labor intensive manufacturing jobs may not be coming back, to the extent we have manufacturing in this country, it does support a number of jobs that are not classified as manufacturing in the kinds of service sectors Yglesias more readily supports.

But finally there's the key point that graphic Yglesias put into his own post shows: Manufacturing may make up a small portion of the actual jobs out there. But it is central to innovation and productivity.

What the country has been doing by emphasizing manufacturing is not—as Yglesias tends to suggest—subsidizing a bunch of labor intensive jobs in smoky 100-year old factories. Rather, to the very limited extent that Obama has invested



in manufacturing more than his predecessors (which primarily consists of saving a domestic auto industry and investing in energy manufacturing), it has involved investing the bare minimum necessary to ensure our country participates in some but by no means all the industries that are driving key innovations.

A manufacturing policy is a jobs program as much through the secondary jobs manufacturing supports as through the manufacturing jobs themselves.

But a manufacturing policy is a competitiveness program because that's where innovation comes from. Without that you don't get some of the nice things Yglesias talks about—more leisure time and medical cures and more enjoyable jobs.

That's where Yglesias logic collapses—in the “and so” I bolded above. Sure. We will never have as many labor intensive manufacturing jobs as we used to have. We will, depending on our policies, have more innovative manufacturing jobs than we have now, along with the service jobs that come with those manufacturing jobs. But if we make those policy choices, we will also renew America's commitment to remaining at the cutting edge of innovation across multiple industries, something without which we can't have a lot of the nice things Yglesias just assumes come of themselves. That's what the policy debate is about, not those labor intensive jobs in 100 year old factories, no matter how much Yglesias would like to caricature it as such.

I agree with Yglesias on this: Americans don't need more closets full of cheap manufactured goods.

But that is different from saying that Americans don't want more sophisticated medical technology or smart phones that integrate cutting edge materials and electronics or safer, more efficient cars—and the attendant new technologies and service jobs that come with these things. And that is also far different

from saying that Americans don't want to be the most advanced country in the world anymore because their government and society just aren't willing to invest in competitiveness the way the Chinese or Koreans or Germans are.

The logic of Yglesias' post is that a country doing what it needs to to remain innovative and competitive is some kind of Rube Goldberg deal. That logic only sustains if you have a really outdated understanding of what manufacturing is. I don't think that's what Yglesias really believes, which is why he might want to read the McKinsey report he cited in some more detail.

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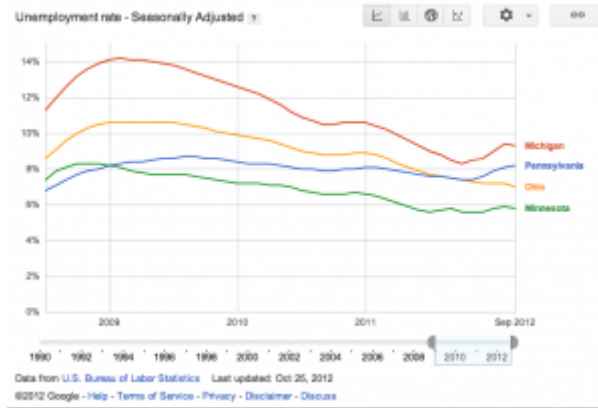
## **LET MITT ROMNEY GO BANKRUPT**

Because he just lost this race.

Our country hates hates hates industrial policy. But industrial policy just re-elected a President.

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## **CREEPING UNEMPLOYMENT IN THE NEW BATTLEFIELDS: PA AND MI**



The big news of the campaign, once you get beyond Mitt's

kabuki storm assistance and auto bashing, is that PA and MI are battlegrounds again.

Maybe.

First, Restore Our Future PAC announced \$2 million ad buys in both states. The the Obama campaign announced they'd buy ads as well.

Today, the Detroit News has a poll showing Mitt within 2.7% of Obama (though polling ended on the 29th, when Mitt's deceitful auto binge began). In fact, while Romney and Ryan were "not campaigning" yesterday, Ann Romney was, here in Grand Rapids.

Some commentators suggest this is just Mitt's effort to open up new battlegrounds as it becomes clear he won't win OH and might not win VA (or FL, but that would be game over for him). That is, Mitt has to look viable, and by moving into MI and PA, he can sustain narratives that he still has a shot.

That may be what's going on.

But it pays to look at what has been going on with the unemployment rate in both MI and PA (I've included OH for comparison and MN because it often gets thrown into these discussions).

MI's unemployment rate is up 1% off its recent low in April (the downtick this month, and some of last month's uptick, is probably due to the way the auto companies handled model year layoffs). Part of the uptick is probably due to Rick Snyder's austerity plans; part is probably due to Obama's failure to provide real mortgage

relief.

PA's unemployment rate is up .8% from its recent low in May. Here, too, Republican governor Tom Corbett has pursued austerity measures. In addition, PA is exposed to the Euro-related decline that has hurt much of the Northeast.

The point, though, is that both these states have the makings of a battleground state—including a white working class population that can swing with economic tides—plus rising unemployment. Obama is still ahead in both. A few more ads about the auto bailout—indeed, Mitt's deceitful attacks on GM and Chrysler generally—will probably move MI back towards Obama. And the Philadelphia area was spared the worst of Sandy, staving off the possibility that Pennsylvtucky would have unimpeded voting while the Democratic Southeast would have floods. So it's still most likely Obama will win both by comfortable margins.

But one thing makes movement towards Mitt more realistic here than in, say, MN. The economy is getting worse again. And in spite of all Mitt's unforced errors in recent days, and in spite of the way that Snyder and Corbett's state level policies—which mirror those Mitt would adopt at the federal level—have almost certainly exacerbated unemployment, voters may still turn to Mitt as an alternative to a stalled recovery.

Mitt's play in MI and PA is probably a ploy to look viable. But there are a lot of unemployed workers in both states who will help him along.

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## **COMPUTER RETURNS**

The Chinese computer company, Lenovo, which bought IBM's PC division in 2004, has announced it will be opening a small production facility in North Carolina next year.

The world's No. 2 personal-computer maker says the PC production line now being built at a facility in Whitsett, N.C., will allow the company to become more responsive to U.S. corporate clients' demand for flexible supplies and product customization. Although the cost of U.S. production will be higher compared with overseas production, an added benefit will be to raise Lenovo's profile in the U.S., where it ranks fourth in market share by shipment.

[snip]

Lenovo executives said the new production line isn't a temporary publicity stunt. "I believe this is the first of many steps to increase our production capability," Mr. Schmooch said. "I'm very, very bullish about what I can get out of this facility."

Gerry Smith, Lenovo's head of global supply chain, said the decision to set up a production site in the U.S. is in line with the company's broader strategy of localizing its production in major markets as much as possible.

The move is interesting simply as a reflection of the way that more customized manufacturing—as Lenovo's higher-end computers can be—is localizing.

But there's also an irony here, given all the attention on Apple's production in China, most recently with the Foxconn riots coinciding with the release of the iPhone 5.

But what it does is present an alternative strategy, with products Cook knows well, as a way to compete better against (among others) Cook's current company.

If Cook can only get those Apple maps to work he might even return to the Southeast to see how this works!

Before Tim Cook became VP and ultimately CEO of Apple, he worked at IBM—what would become Lenovo’s US headquarters—in North Carolina on manufacturing logistics. And this move is effectively a return of ThinkPad production to IBM’s former stomping grounds.

Apple’s still not going to bring device assembly to the US anytime soon. They sell generic widgets, not customized machines as this plant will produce. And even as expensive as their products are within segments, most of what they sell is still much cheaper than a loaded laptop.