Creative Destruction And The Middle Class

Mike Collins, Author, Saving American Manufacturing

Manufacturing is not the total answer to a declining middle class; but for every eight manufacturing jobs created, six other jobs are created in the economy.

Joseph Schumpeter in his classic book “Capitalism, Socialism and Democracy” called eras of great change in a capitalist system creative destruction. He made the term famous when he used it as a process in which the old ways of doing things are destroyed and replaced by new ways.

We appear to be going through one of the periods of great change and creative destruction now, as witnessed by what is happening to the middle class and living standards.

Changes that Led to the Crisis

Everyone likes to blame Wal-Mart, the Chinese, or the recent financial collapse as the reasons for economic changes, but the forces that led to this creative destruction and great change are not new. These changes actually began more than 25 years ago and the results were actually predicted in a 1987 report “Technology and the American Economic Transition” from the office of Technology Assessment. Here’s what this report predicted:

“During the next two decades, new technologies, rapid increases in foreign trade, and the tastes and values of a new generation of Americans are likely to reshape virtually every product, every service, and every job in the U.S. These forces will shake the foundations of the most secure American businesses.”[1]

This was the very first report in my research that predicted the potential problems

associated with the decline of manufacturing and the changes that would lead to a "post-industrial economy."

The report went on to say, "Certainly, it is now possible that the U.S. will find its living standards in decline with respect to its competitors, and discover its role as an economic and military leader of the free world called into question in the next two decades."

It has now been 23 years since that report, and all evidence seems to support the conclusions. The report made four fundamental predictions that are worthy of review.

1. *"Change can lead to wrenching dislocation and pain for workers with obsolete skills, for management unable to recognize opportunity, and for communities where traditional businesses have failed."*
Clearly, the answer to this prediction was correct. It is particularly true when you examine the losses in manufacturing and related industries.

- More than 2.3 million manufacturing jobs have been lost since 2000, and 6 million manufacturing jobs have been lost since 1979.
- The wrenching pain of job loss is not just the pain of manufacturing blue-collar workers. Between 1980 and 1993 the top 500 industrial corporations cut 4.5 million jobs – both blue collar and white collar.
- In addition, the information jobs that were supposed to be the answer in the post-Industrial society – jobs such as financial services, software, and customer service – are moving to lower cost countries.

The prediction that the transformation could affect every product, service, and job is proving correct; and the dislocation and pain seems to be spread over a wide range of industries and jobs. But wrenching dislocation and pain is turning out to be more than just loss of jobs.

The "Index of Social health and Gross Domestic Product" is an index created by Fordham Institute of Innovation on Social Policy to measure nine social indicators in relation to economic growth.

Since the 1970s, the Index of Social Health has shown a disturbing downtrend in measurements like child poverty, healthcare coverage, youth homicide, food assistance, housing assistance, employee benefits, as well as other key measures of social health.

This index shows that the long-term trend line for social problems is getting worse compared to GDP growth. This trend is closely associated to the decline of working class and middle class income.

History shows that we eventually pay for social problems one way or another, and usually it is the government that must step in and offer the programs and answers. One part of the answer to arresting this long-term slide is to provide the family wage jobs that help support families and keep them together.

2. *“Change can create an America in graceless decline- its living standards falling behind those of other world powers.”* Even with the unarguable growth in wealth in the top 10 percent of the population, U.S. living standards have fallen for most of the middle and working class.Since 1977, the after tax income of 60 percent of American households has been declining, and another 20 percent has made a small gain. The data in this report clearly shows that the shift to the “Post Industrial Economy” is now lowering the living standards of the majority of Americans. Whether our living standards will fall behind the other world powers is still in question, but an “America in graceless – decline” is an appropriate prediction.A middle Class Study published in Parade Magazine in 2006 revealed the following responses:

- Nearly 57 percent say they believe the middle class in America is decreasing.
- 66 percent say they tend to live from paycheck to paycheck.
- Nearly 83 percent say there is not much money left to save after they have paid their bills.
- 89 percent of the respondents believe that businesses have a social responsibility to their employees and to the community, but... [2]

Elizabeth Warren the Leo Gottlieb Professor of Law at Harvard and the chairperson of the Congressional oversight panel on Tarp is convinced the middle class is disappearing.

She says, “one in five Americans is unemployed, underemployed, or just plain out of work. One in eight mortgages is in default or foreclosure and one in nine families can’t make the minimum payment on their credit cards. One in eight Americans is on food stamps. More then 120,000 families are filing for bankruptcy every month. The economic crisis has wiped out more then $5 trillion from pensions and savings, has left family balance sheets upside down, and threatens to put ten million homeowners out on the street.”
3. *“Change can result in a gap between those fortunate enough to have the talents, education, and connections needed to seize the emerging opportunities and those forced into narrowly defined, heavily monitored, temporary positions.”*
Clearly, the gap between the haves and have-nots is widening at an accelerating pace. The Congressional Budget Office published a chart called The Economic Polarization of America, 1967-1997.

It shows that the after tax income of the poor and middle class have not gained in 30 years, while the richest 6 percent of our population have enjoyed an unprecedented increase in income. This has turned out to be a much worse problem that the 1987 prediction.
4. *“Will people be able to find a variety of attractive opportunities for work, or will only the credentialed elite enjoy such opportunities?”*
All evidence points to the fact that the credentialed elite (the top 20 percent of working population in income) will enjoy the opportunities. The credentialed elite include people with technical or professional degrees for the large part.

Contrary to popular belief, it is not enough anymore to just get a college degree. To

be credentialed enough to command high incomes, is more about getting a professional degree with the right training and the right skills.

The real question is, will people be able to find a variety of attractive opportunities for work? I think attractive opportunities means family wage jobs that can support a family of four.

The U.S. Department of Labor publishes a list of the “Fastest growing occupations in its Occupational Outlook from 2006 –2016. These tables show that 18 of the occupation classifications (5,314,000 jobs 70 percent) are very low pay (below $21.000) or low pay (up to $30,000). 10 occupations or (2,200,000 jobs 30 percent) are considered high pay ($30,000 to $46,000) or very high pay (over $46,000).

If this 10 year prediction is accurate then it appears that the average middle class worker is going to have trouble finding a family wage job.. These statistics do not support the notion that transitioning to a service based economy is going to be a good thing for at least 70 percent of all future workers and their families.

Consequences of a Declining Manufacturing Sector

The idea that we can transition to a “post industrial” economy that will somehow sustain us without affecting living standards is a myth. We are already faced with declining living standards and it could get worse.

The evidence shown in the previous answers to the four predictions seems to indicate that the so-called post industrial transition has not been good for the average worker in terms of living standards or opportunities.

It is the author’s contention that there is no evidence that supports the notion that is possible to continue economic growth or provide enough good jobs without a strong manufacturing base.

Schumpeter’s predictions on creative destruction and great economic change are evidently an accurate description of what is happening to the U.S. economy. He went on to say that this change would go on to foster values that are hostile to capitalism.

He says,” There will not be a revolution but merely a trend in parliaments to elect social democratic parties of one stripe or another.” He suggests that capitalism will eventually give way to some form of socialism or social programs to help the many workers who find themselves in financial jeopardy.

What is the Answer?

If you are a conservative and don’t like Schumpeter’s prediction of government being the ultimate answer, then now is the time to speak up. Manufacturing has traditionally supplied the family wage jobs for the middle class and can continue to supply them if we make saving the manufacturing base as important as the war against terrorism.

Am I being overly dramatic? Actually, I'm not – terrorism can destroy lives, infrastructure, and our feelings of being secure in our own country. The destruction of the middle class part of our economy could have a similar – and even more widespread – effect.

If more and more workers get forced into lower paying jobs and facing insecure futures, they will vote their pocket book and the only answers are government solutions- perhaps a second New Deal.

The answer is clear: we can't allow manufacturing to decline below the critical mass it will take for manufacturing to continue to support the rest of the economy. Manufacturing is not the total answer to a declining middle class; but for every eight manufacturing jobs created, six other jobs are created in the economy.

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[1]Technology and the American Economic Transition. Office of Technology Assessment, 1987.

[2]Mark Clements Research; Is the American Dream Still Possible? Parade Magazine, David Wallechinsky, April 23, 2006.

[3]Table 1 – Fastest growing occupations covered in the 2006-2016 Occupational Outlook, U.S. Dept. of Labor, Washington, DC, 2003.

[4]There is no agreement on how much a family wage job pays, but the author contends that a family of parents and two kids need to make over the $46, 000 figure each (shown above as "high pay") to live comfortably.

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