# A Hard Look at Postindustrialism

## *Manufacturing has unappreciated strengths*

Book Review by John Attarian

To hear some people talk, the computer is the greatest thing since the steam engine — or perhaps the wheel. Supposedly America is entering a postindustrial New Economy based on services, especially manipulating information. Americans will earn high incomes in software development, finance, and other postindustrial services, and manufacturing will be farmed out to low-wage Third World countries.

**In Praise of Hard Industries: Why Manufacturing, Not the Information Economy, is the Key to Future Prosperity**
*by Eamon Fingleton*
Boston: Houghton Mifflin
273 pages, $26.00

Maybe not. In this informative and thought-provoking book, Eamon Fingleton, a former editor for *Forbes* and the *Financial Times*, and a veteran observer of the Japanese economy, argues persuasively that the postindustrial paradise isn't what it's cracked up to be. In fact, it has three lethal drawbacks. First, most of its jobs will go to the high-IQ elite. Whereas manufacturing enables people with average educations to earn good livings, postindustrialism offers them bleak prospects. For them, "America's shift to the New Economy is little short of disaster." This leads to the second problem: stagnant income growth. Since America started becoming postindustrial, per-capita incomes have lagged behind other developed countries such as Japan, Germany and Switzerland which are more manufacturing oriented; in 1998 America's per capita income was $27,821, versus $41,411 in Switzerland. Third, postindustrial exports are weak. Much information is only locally useful, hence unexportable, and intellectual property has scant protection in the internet age. More importantly, information work is labor intensive, making high-wage American postindustrial exports unattractive relative to low-wage countries' local products.

Fingleton elaborates with a survey of the postindustrial economy — a sobering deflation of "new economy" hype. Software's much-touted giants such as Microsoft are in fact small companies, generating few jobs. Not only is software weak in exports, but America faces a future import threat, since capital costs are low, making the industry easy to enter. Third World software engineers and programmers can be as good as Americans, and are much cheaper. India is an especially formidable potential competitor, with cheap labor proficient in math, and software companies of proven ability.

While banks and other financial institutions facilitate investment, protect against risk, and so on, the industry tends uselessly to inflate the volume of financial transactions. Moreover, financial exports are unimpressive, since much of finance companies' overseas activity is handled by overseas branches and subsidiaries.

As for the communications revolution, Fingleton is rightly skeptical, arguing that "in its most economically significant applications, the internet offers at best only a marginal improvement in productivity." E-mail's speed and convenience expedite urgent communication but generate gluts of insignificant messages. The internet's business information is mostly public relations. Virtual reality has useful engineering and research applications, but those who talk of selling virtual reality services worldwide forget that trade goes both ways. Movies aside, entertainment has only limited export potential, thanks to the ease of pirating compact disks and the

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limited appeal of many American products such as television talk shows.

By contrast, manufacturing has strengths which go unappreciated amid the postindustrialism hype partly due to a misperception of manufacturing as the labor-intensive final assembly of consumer goods. Fingleton sees manufacturing in terms of "hard industries" instead: manufacture of components and materials and the production machines which make them. Unlike the postindustrial sectors, hard industries have high barriers to entry. They are very capital-intensive, which makes start-up costs forbiddingly high. Also, existing firms can accumulate significant proprietary know-how enabling them to outperform newcomers. Low-wage countries have difficulty acquiring adequare capital and know-how. Therefore, "nations that achieve early leadership in [hard industries] are remarkably well insulated against future challenges from lower-wage foreign competition."

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In another eye-opening survey, Fingleton shows that the purportedly dead car industry still contributes substantially to prosperity in America and Japan; that Japan's Nikkon camera company is leading the world in manufacturing equipment for making semiconductor chips, that producing semiconductor-grade silicon is so demanding that only capital-rich, knowledge-rich developed countries can undertake it, and shifting its production to the Third World makes no economic sense.

Postindustrialists have argued that mature industries such as steel, shipbuilding and textiles are no longer economically viable for developed countries and would migrate to the Third World. John Naisbitt predicted in *Megatrends* that Brazil would displace Japan as the world's leading shipbuilder. Yet Brazil's shipbuilding industry has gone nowhere and Japan's still flourishes. The capital-intensive manufacture of synthetic textiles and textile equipment remains in developed nations. The First World's steel industry has embraced new technologies and methods, enabling it to boost productivity, cut costs, and remain vigorous.

Given all this, Fingleton persuasively argues, we are making a disastrous mistake opting for postindustrialism. If we persist in this, "we can surely predict a drastic deterioration in the American economy's performance." Personal income growth will stagnate, and our foreign trade will deteriorate. Yet the mainstream media ignore this danger, out of fascination with the internet, ideological bias, and sheer bungling. Fingleton scathingly reports how the American media got Japan wrong in the Nineties, seizing on Japan's stock market plunge to report a goner economy plagued by trade and budget deficits, when Japan's economy is actually thriving, living standards are rising briskly, Japan is running budget surpluses, and exports are bigger than ever. Similarly, talk of an American manufacturing and high-tech comeback overlooks dependence on overseas resources such as Japan for high-tech inputs, and the argument that Americans are uniquely creative ignores Japan's record in innovations.

All this is extremely useful for intelligently observing globalization. Unfortunately, having exploded postindustrialism's hype, Fingleton proposes some hype of his own. He paints a glowing picture of a coming "expanding universe." Far from having excess capacity, manufacturing faces rising demand as the Third World tries to raise its living standards. Moreover, technology may soon give the First World's hard industries exciting opportunities for making new products: production robots, voice recognition systems, water-efficient crop watering, alternative energy sources, etc. And it will have to be done in environmentally-friendly ways.

An appealing prospect, but he never presents even one estimate of what any of this would cost in terms of capital outlays. For good reason: that cost is daunting. Japan's Sumitomo pipe-making plant cost $700 million, for a capital outlay per job of $470,000. If current manufacturing is that capital intensive then future projects, using even more sophisticated technologies, would necessarily be even more so. This raises an awkward question: where will the enormous savings required to finance all this come from? How will we sustain living standards, pay for the Social Security, Medicare and other entitlements the Baby Boomers will soon start drawing and which we lack the courage to cut (a problem Fingleton ignores), and make these huge investments?

While acknowledging the need to increase savings, Fingleton does not answer that — his one real weakness — but he does offer other worthwhile proposals. He advocates tax incentives to channel more savings into manufacturing, and reengineering executive stock options to reward focus on long-term growth and penalize preoccupation with short-term profits. To improve manufacturers' returns on investments and encourage them to reinvest profits for long-term growth, he advocates "a modest but adequate wall of tariffs."

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This is heresy to globalist economites, but Fingleton' answer is music to the ears of those of us worried about galloping economism: "absolute economic efficiency is by no means the only consideration here." Just as families ignore efficiency maximization to obtain privacy and other amenities, a major economy may reasonably "waive the dictates of crude economic efficiency" to ensure self-sufficiency in essential manufactured goods. "The need to build firewalls against the worst excesses of globalization may not enter into economists' equations, but it is a real consideration nevertheless for anyone who has a wider concern for the human condition." If all peoples had like values globalization might work, but they don't. Westernization of non-Western countries is shallow and misleading. Consuming American fast food and soft drinks doesn't mean foreigners share our political or economic views. "Absent carefully thought-through safeguards, therefore, any attempt to mesh diverse cultures together is likely to end in tears." We need, Fingleton concludes, to balance improving the world with protecting the interests of our own country and our own people.

Hear, hear! It is refreshing to encounter an author brave enough to say such things and sufficiently well-informed to demolish the postindustrialist propaganda. Fingleton's concerns are well-warranted and have troubling implications. For capital-rich America to shift out of capital-intensive manufacturing where it has an advantage, to labor-intensive services, where it does not, may be good for specific corporations, but is it good for America? How can we preserve our way of life, our civilization which owes so much to prosperity (our superb libraries, museums and universities, like Europe's, were, after all, created out of an economic surplus), and our stable, peaceable social arrangements if a postindustrial economy leaves a large share of our population unable to earn a decent living?

*In Praise of Hard Industries* is a badly-needed wakeup call. If it finds the audience it deserves it might help wrench America back to reality and common sense.

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