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IT'S MANUFACTURING, STUPID

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Price-adjusted median household income (in 2010 dollars) for all American households is higher today than in 1980 by 11 percent, rising from \$44,616 to \$49,445. The increase is even more impressive for individual household member: a 35 percent improvement from \$19,449 to \$26,193. For two-earner households, income jumped over this period by 46 percent, while one-earner households experienced a handsome increase of 26 percent. Even households in which there were no earners, income climbed by 21 percent. Today, one-earner and no-earner households represent 61 percent of all American households. These data, along with other figures on employment and production, dispel the claim that the United States is mired in a three-decade decline.

Even so, there has been a decline in real median household income since the last year of the Clinton administration, dropping from \$53,164 in 2000 to \$49,445 in 2010.

The Obama re-election team no doubt will blame Republicans for this backsliding. Indeed, it has been laying the foundation for this strategy since the very first days of the Obama presidency through its Middle Class Task Force, chaired by Vice-President Biden, that called attention in its 2010 annual report to the drop in real median income (in 2008 dollars) for all *working-age* households from \$60,805 to \$56,791 during the Bush II's eight-year tenure in the White House.

The argument is disarmingly simple. Since the decline happened during the Bush years, it must be due to the Bush policies. Add some class-warfare rhetoric to the mix, and the argument becomes almost convincing. To seal the deal on this argument, it is necessary to omit any mention of the \$21,130 *decrease* in the mean household income of the top 5 percent of households during the Bush years.

In addition to the recent negative household income figures themselves, the Obama re-election strategy has another strong point. Most younger Americans have experienced little else than economic growth. Since late 1982 and excluding the Great Recession there have been 285 months of economic expansion, with only 16 months of contraction. Expecting growth leads to demanding growth and when the private sector underperforms the government must produce that growth.

This strategy has several important weak points. First, the U.S. population is aging, more of the elderly are experiencing an empty nest, and consequently households are becoming smaller and more likely debt-free. With the exception of health care that to a large extent is covered by Medicare – we do not dismiss the very serious unfunded liability of this entitlement program -- their needs are not as great as they once were. Oddly, the income of households headed by persons 65 years of age and older actually *increased* from 2000 to 2010.

Second, there has been a disproportionately large increase in the number of female-headed (essentially one-earner) households since 1980. Their incomes average less than one-half of married-couple households and quite apart from the Bush policies those lower incomes contribute in recent years to the decline in the average for all American households.

Third, and most important, employment in the high-wage manufacturing sector has dropped from its peak of 19.4 million in 1979 to 11.5 million in 2010. More than 5 million of that loss has taken place since 2000. Fifty years ago, more than one of every four Americans worked in manufacturing and there were nearly twice as many factory jobs as government jobs. Today, only one in eleven Americans holds a manufacturing job and government employment eclipses manufacturing by almost two to one.

This is the three-decade deterioration that has hammered middle-class Americans in the nation's manufacturing heartland. It follows directly from global economic development, the collapse of isolated Communist regimes that began in Poland in the late 1970s, and the relocation of goods-producing to aggressive low-wage countries. Current information from the Bureau of Labor Statistics indicates that hourly compensation costs in American manufacturing today stand at \$34.74. Thus, a year-round, full-time worker costs the typical American manufacturer more than \$72,000. In Mexico those costs are roughly \$13,000. In the Philippines they drop to just below \$4,000. The BLS was not able to supply comparable data for India or China.

Clearly, in order to compete American goods producers must have dramatically higher labor productivity and that in turn demands massive capital investment. The Obama re-election strategy that targets middle-class Americans hardly qualifies as capital-friendly. Mandating higher minimum wages will not bring manufacturing back to the United States.

Unless and until the private service-producing sector supplies more high-wage employment opportunities, Obama's re-election strategy is vulnerable in ways reminiscent of the Clinton attack on Bush I in 1992: "it's manufacturing, stupid."

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