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AMERICA: AN INDUSTRIAL WEAKLING?

[by Lori Gladstein]

Plant shutdowns have been an integral part of the American economy for centuries. But the pace accelerated in the economic stagnation of the 1970s and early 1980s. If all the plant closures that occurred in the past decade are added up, total losses come to at least 32 million jobs. This wave of shutdowns has, in the eyes of many, reduced to rubble the American industrial machine and left in its wake millions of unemployed from Youngstown, Ohio to Fremont, California.

Barry Bluestone and Bennett Harrison, in their book, *The Deindustrialization of America: Plant Closings, Community Abandonment and the Dismantling of Basic Industry* (Basic Books, 1982), provide the beginnings of a much needed analysis of the causes and consequences of plant closings and capital mobility. The strength of their analysis lies in its description of the costs and causes of deindustrialization; its policy prescriptions call for democratic planning, but, in effect, the authors are more philosophical than substantive in this regard.

Deindustrialization and America's Economic Decline. Bluestone and Harrison's main argument is that deindustrialization underlies every problem faced by the American economy today: high unemployment, sluggish output growth, and an inability to compete successfully in world markets. Deindustrialization is the diversion of capital from "...productive investment in our basic industries to unproductive speculation, mergers and acquisitions, and foreign investment." In their view, the accelerated pace of deindustrialization is caused by corporate management's need to maintain the profit rates of the 1960s under the radically altered economic conditions of the 1980s.

Bluestone and Harrison document thoroughly the deindustrialization of America. Instead of modernizing plant and equipment in the U.S., many corporations are investing abroad. In 1982, for example, Ford Motor Company reported that 40% of its capital budget was spent abroad. During the 1970s, both General Electric and RCA expanded their payrolls by 5,000: G.E. by eliminating 25,000 jobs in the U.S. and adding 30,000 abroad, and RCA by adding 19,000 foreign jobs and eliminating 14,000 U.S. jobs.

The authors emphasize the increasing importance of multinational conglomerates (corporations that cross industry and international boundaries). They contend that the phenomenon of increased capital mobility is a result of corporate strategy. Deindustrialization can be subtle, involving the redirection of profits generated by an existing, usually profitable plant, to new facilities or new products. The older plant is not dismantled in the short run, but its chances of surviving in the future are diminished by the loss of control over earnings.

Organized labor has always recognized the anti-union bias in plant relocation. The popular impression of relocation in the South involves the attractions of lower wages, weaker unions and a more accommodating local government attitude toward business. According to the authors, spokespersons for the business community concede that most plant relocations are to reduce labor costs and attain greater workplace discipline. In addition, states and other countries encourage relocation with offers of tax holidays and subsidized construction.

Capital Mobility and Jobs. Movements of billions of dollars of real and financial capital leave behind displaced workers. Bluestone and Harrison's evidence is sobering. In many cases, workers laid off in plant closings never find jobs of equal pay and status. A nationwide survey of 4,000 men over a seven year period from 1966-1973 showed that 5% of experienced workers (those with the same employer for at least five years) experienced permanent involuntary job loss. Twenty percent of this group were unemployed for at least six months before finding a new job, and three fifths of these displaced workers experienced a decline in occupational status.

Disinvestment has other, less visible, costs. Unemployed workers have little money to spend in the grocery stores, retail stores, or banks in the community. With large industries like steel and autos predominating, some entire regions function like company towns. The U.S. Department of Labor estimates that for every 100 jobs lost in the motor vehicle industry, 105 jobs are lost in the direct supplier network.

State and local government revenues fall as plant shutdowns increase. As regional incomes fall, so do tax revenues. Coincident with falling revenues are rising expenditures, as demands increase for unemployment compensation, food stamps, welfare, and public health services. Often, local communities have fewer resources to provide for police, fire, education and health services.

Bluestone and Harrison make an important point that areas on the receiving end of relocated industry suffer unseen costs. Unplanned, unrestricted growth in the Sunbelt has led to overburdened schools, sewage systems, highways, and police. Often these areas use tax abatements to entice new industry, so that growing demands for services must be met out of constant, or shrinking, revenues.

Disinvestment and Industrial Policy. Disinvestment is a normal process in a dynamic economy. As an economy grows, technologies and demands change, and disinvestment should release labor and capital from unproductive sectors so that they may be reallocated to more productive projects. In a large, diversified economy that reallocation process takes time. It is not a smooth, costless process for the economy as a whole, and it is particularly costly and discontinuous for the worker and the firm. In the U.S., the private sector controls the pace of disinvestment, and the costs of economic dislocation are borne by the workforce of the plant or industry and by the community. Given that reallocation of resources is necessary, the authors argue that democratic planning is needed to allocate these costs equitably. They advocate systematic monitoring of corporate investment and disinvestment decisions by government, unions, and community organizations.

Other economists, among them Prof. Lester Thurow of MIT, suggest that America's problem is not enough disinvestment. They argue for the creation of new institutions to encourage firms to diversify their assets and move into new, more profitable areas, presumably high technology industries. Bluestone and Harrison attack this idea of top-down industrial policy as undemocratic. In exchange for government regulatory aid and subsidization, these firms must share ownership and control with the public. Public and private partners must set policies on profit redistribution, pricing, location, health and safety, and hiring and promotion.

The authors do not emphasize strongly enough the weakness in industrial policy. The focus of this policy is competing with other countries (mostly Japan) in high technology areas. It seems to be a mistake for the U.S. to allocate all of its resources to competing with the Japanese on "their own ground." With the same concern for public and private partnership, the U.S. should also exploit its own areas of comparative advantage.

How Should Unions Respond? Organized labor can respond to this accelerated capital mobility with unionization in conglomerates. At present, unions have no legal right or guarantee to organize throughout a firm when they are already established in one division or industry. The problem with conglomerates is that they are not considered a single employer with regard to labor policy. Unionization in conglomerates crosses occupations and industries, and with these jurisdictional problems, coordination must come from the AFL-CIO.

The size and financial clout of multinational conglomerates allows international runaway shops. To counter these whipsaw tactics, organized labor can respond with international cooperation among unions representing workers in the same occupations or companies. A number of factors make such cooperation difficult, including differences in cultures, feelings of nationalism, divergent relative wages, and the fact that labor in another country wins when U.S. labor loses (at least in the short run). But if plant relocation outside the country has some anti-union motivation, labor must respond collectively.

The Deindustrialization of America provides us all with a long term research and action agenda. It is clear that it will be up to unions to insure that the needs of working people are included in the reindustrialization debate, and in any plans which are adopted for economic revitalization.

– Lori Gladstein