MANUFACTURING MATTERS  

The Myth of the Post-Industrial Economy. By Stephen S. Cohen and John Zysman.  

By Robert M. Solow

THERE is a lot of loose talk about the "deindustrialization" of the United States economy. We are losing our manufacturing industry to foreigners and becoming a "service economy" (if you like the idea) or a "nation of hamburger stands and insurance companies" (if you don't like the idea). Stephen S. Cohen and John Zysman begin their book, "Manufacturing Matters: The Myth of the Post-Industrial Economy," by insisting, quite correctly, that no such thing can happen. The orders of magnitude are such that the United States could not hope to pay for its manufacturing imports by selling services abroad. We need too many goods, and there are not enough services. One way or another we will continue to be producers of goods, including manufactures, and probably net exporters of goods in order to pay interest on the debts we have incurred during the consumption binge of the 1980s.

That doesn't make things all right. We could of course balance our trade — and we will — by depreciation of our currency and reductions in our real wages. There is no trick to that. Every country that is so poor and so unsophisticated that no one will lend it to balances its trade, precisely by being so poor that it cannot afford to import more than it can pay for by exporting. And what it exports are the products of cheap labor. If American manufacturing is to win back a competitive edge against Japan, South Korea and West Germany, it will have to find a way to sell goods here, there and in third markets while maintaining high wages and earning a good return on investment. That can only happen if we catch up with, and at least sometimes surpass, our rivals in productivity, quality and design.

The authors also make the probably valid point, that even if it were otherwise possible, the notion of a "post-industrial" economy fails against the proposition that modern, high-productivity business services are really inseparable from the production of the goods they serve. The free-floating service sector will soon lose touch and the new producer will soon acquire the new producer's service. The free-floating service sector will soon lose touch and the new producer will soon acquire a representative example: "Those firms that understand, invent and implement the new possibilities of the emerging telecommunications technology will gain advantage. Critically, corporate strategies at home and abroad will use the possibilities of the new technology to capture competitive advantage. We cannot, of course, demonstrate how technologies that are only now emerging will alter strategies in ways yet to be imagined." A passage like that is not wrong; but it only appears to be saying something.

Here is a different sort of example. After 100 pages the authors announce "six hypotheses that will be used as premises from here on in. . . . First, technological developments can provoke rapid market shifts. Second, technologies are shaped by the needs and arrangements that exist in the nations from which they emerge. Third, some critical technologies can affect the competitive position of a whole range of industries; and if one nation uses these technologies to gain a lead in a vital product, it can forge an important trade advantage for itself. These are strategic transformative industries." The other three "hypotheses" are similar. With all respect, these are truisms, not hypotheses.

In a way, I do not blame Mr. Cohen and Mr. Zysman, directors of the Berkeley Roundtable on the International Economy at the University of California, for falling into bad habits. They want to appear to be generalists as the subject on which there are too many (what is almost the same thing, too many) defensible generalizations. It is just a pity that they cannot be content with the odd insight, the occasional plausible and distinctive observation. They, in fact, produce a few good stories and give the reader furiously to think.

I do fault them for one cop-out. One of their central beliefs is that there has been a Revolution in manufacturing, its name is Programmable Automation, and that American industry has failed to capitalize on it. That may even be so. But then they go on, "We do not need to show that the new technologies produce a break with past patterns of productivity growth . . . . [that] would depend not just on the possibilities the technologies represent, but rather on how effectively they are used." What this means is that they, like everyone else, are so carried away by the wave of the fact that everyone feels to have been a technological revolution, a drastic change in our productive lives, has been accompanied everywhere, including Japan, by a slowing-down of productivity growth, not by a step up. You can see the computer age everywhere but in the productivity statistics.

The authors also put some emphasis on the organization of skilled work in factories, and on the education of production-oriented engineers and executives. They mention the intriguing possibility that the Japanese are an example of the fact that everyone feels to have been a technological revolution, a drastic change in our productive lives, has been accompanied everywhere, including Japan, by a slowing-down of productivity growth, not by a step up. You can see the computer age everywhere but in the productivity statistics.

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