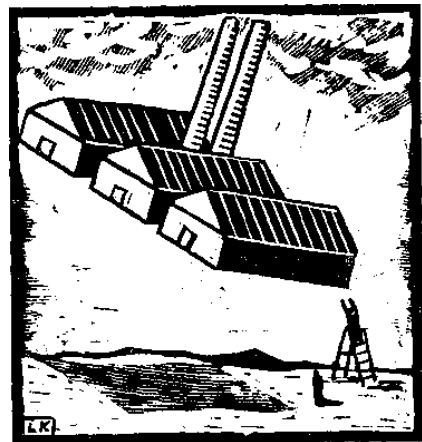


We'd Better Watch Out

Robert M. Solow, *New York Times Book Review*, July 12, 1987

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 1980's.



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 unpromising that no one will lend to it 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 paying 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 service. The free-floating service sector will soon lose touch and the new producer will soon acquire know-how.

This part of the argument is convincingly done. When Mr. Cohen and Mr. Zysman come to explain What Went Wrong with the United States manufacturing industry they have some interesting and reasonable things to say, but they also begin to flail around a bit. They tell war stories, they go in for heavy breathing (Revolutions and Transformations come thick and fast), they profess confidence about things no one can possibly know and they fall into vagueness. Here is 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 generalizing about a subject on which there are too few (or 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 discussable hypothesis. They do, in fact, produce some of those. They are interesting, for example, on the need for flexibility and adaptability in modern manufacturing required to give a rich, knowledgeable and finicky market what it wants when it wants it, quite the opposite of the mass-production philosophy that made America great. There are other good moments. The trouble is that they do not know, any more than I do, exactly what let Japan and West Germany overtake United States industry. They should be content to tell 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 somewhat embarrassed by the fact that what 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 inattention to quality is a hangover from the age of mass production. But these side remarks only undermine the claim to generality, to a grand scheme. I would have been happier with some well-deserved modesty.

On public policy, Mr. Cohen and Mr. Zysman have very little to say. They offer the advice that a hands-off policy is both impossible and undesirable. They suggest that public policy ought to be directed positively toward encouraging and assisting the achievement of industrial competitiveness. They suspect, probably rightly, that the United States Government has allowed itself to be flimflammed by the Japanese for years on the matter of nontariff barriers, and ought to play a little hardball. All that sounds right to me. But there is nothing here to offer a Presidential candidate by way of something concrete to do. It would be an interesting memo, and it might yet get written.