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**Rough Terrain in the Economic Landscape**

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The decline of manufacturing is a well-documented feature of the American economic landscape, and because manufacturing historically has been a relatively larger component of our state's economy, this decline has been felt more deeply in Indiana than in some other states. Since the early 1970s, employment in manufacturing has fallen from 39% to 22% of the state's private-sector total, and manufacturing output as a percentage of gross state product has fallen by a quarter – from 41% to 30%.

Because these changes have occurred over a period of extraordinary national economic growth, it is natural to wonder what they mean for our economy as a whole. Particularly since there is a widely held view that what has been happening in the U.S. is an exchange of good paying manufacturing jobs for low paying service sector jobs.

To a certain degree, Bureau of Labor Statistics data support this view. Between 1990 and 2003, while gaining more than 16 million private sector jobs overall, the U.S. lost about 3.3 million jobs in the manufacturing sector. The average weekly pay in 1990 for those manufacturing industries that lost jobs over this period was \$536. Over all sectors during this period, the average weekly pay in 1990 for those non-manufacturing industries that gained jobs was \$410. Not quite burger-flipping wages, but certainly not a favorable tradeoff.

Nevertheless, before we accept the proposition that we're trading good jobs for bad, it's worthwhile to look into where jobs were being created, both in the manufacturing sector and in other areas. While the U.S. was losing 3.3 million manufacturing jobs, the information and finance sectors created the best paying jobs outside of manufacturing. These two sectors experienced a net increase of 1.1 million jobs that paid, on average, about \$700 per week in 1990.

Trading \$530 jobs for \$700 jobs would be great, but there are two problems. First, it requires an imaginative mind to presume that people who lost jobs in manufacturing moved effortlessly into the information and finance sectors. Second, even if that were the case, those two sectors would only have replaced about a third of the jobs lost in manufacturing. And non-manufacturing jobs in other sectors tended to pay far less.

On the "every cloud has a silver lining" front, there is some good news for Indiana, which lost almost 91,000 manufacturing jobs between 1999 and 2003. This was a net loss resulting from a gain of almost 14,000 manufacturing jobs in some industries and a loss of 105,000 in others. The good news is that the average weekly pay in 1999 in those manufacturing industries that gained jobs was \$1,213, which was \$440 more than the average weekly pay in manufacturing industries that lost jobs.

Of those 14,000 relatively well paying manufacturing jobs created in Indiana between 1999 and 2003, about 4,000 of them were in a "traditional" manufacturing industry – motor vehicle manufacturing – thanks mainly to Toyota's new plant in Gibson County. But more than 7,000 of those jobs were spread out in the pharmaceutical, medicine, and medical equipment industries.

It is clear that the industrial landscape has changed, but it is equally clear that there are no simple answers to the declining importance of manufacturing. Large employment gains in traditional manufacturing industries are rare events – landing a major vehicle assembly facility may be a once-in-a-generation occurrence. For the most part, the industries that are creating good-paying manufacturing jobs are newer and less familiar to us. They tend to be industries that produce on a smaller scale, in more specialized ways, and they require different skills than large scale assembly line industries.

In the 1930s, the iconoclastic economist Joseph Schumpeter famously described the disruptive evolutionary tendencies of capitalism as “creative destruction”. He described a continual process of industrial growth and decay that left in its wake millions of personal stories of loss and gain. That sounds a lot like the present.

How we respond to this process may not change things for those who have been hurt by it, but may have huge consequences for our children. We can mourn the loss of jobs that are probably gone forever, try to preserve them against increasingly negative odds, or we can acknowledge that the economic landscape is always changing, and prepare ourselves for the terrain of tomorrow’s economy.