

IT'S NOT THE GALE, IT'S THE SET OF THE SAIL

At the beginning of the last century, 33% of all jobs in North America were engaged in Agriculture, and the total output of the Agricultural sector was \$7 billion. By the end of the century, only 1.2% of all jobs in North America were engaged in Agriculture, and the output of the Agricultural sector was \$218 billion. Fifty years ago, 27% of all jobs in North America were engaged in Manufacturing, and the total output of the Manufacturing sector was \$1.5 trillion. By 2009, 9% of all jobs in North America were engaged in Manufacturing and the output of the Manufacturing sector was \$3.2 trillion. This data suggests that North American output more than doubled while utilizing less labor hours—the definition of productivity.¹

Politicians and media talking heads have created a narrative of North American Manufacturing decline. Those who care enough to examine the data will conclude that the story is not supported by the facts. The annual value of all that has been made in North America is approaching an all-time high. And it has been accomplished with fewer labor hours—from an objective point of view that's really good! The constant pursuit to reduce costs, increase efficiency, and source low value components globally—in short doing more with less—has resulted in higher living standards for all consumers. North America is far more wealthy and better off by any measure than it was at the beginning of the last century or even fifty years ago. Believe it or not—and we know most people do not—the economy and its Manufacturing output have so flourished over the past fifty years that currently we may be in our most productive period in history.

Joseph Schumpeter (1883-1950), a giant in the history of economic thought, argued innovation by the entrepreneur leads to “perennial gales of creative destruction” as innovations cause old inventories, ideas, technologies, skills, and equipment to become obsolete.² This creative destruction, he believed, was the driver for progress and improves the standards of living for everyone. Without a doubt, the tension between creation and destruction is the central framework for all entrepreneurial activity in our time.

Look, if you are unemployed, it is devastating for you and a social calamity for the rest of us; no one is in disagreement with that. And increases in productivity coupled with higher unemployment have been anything but smooth. Happily, those who remain in the Manufacturing sector are likely to be performing more highly valued, better paid, less physically backbreaking work (skillfully programming palletized CNC milling machines and associated robotics, not humping around pallets of heavy metal plate or bar). And North American consumers' demand for low priced goods and services dictates that seeking lower costs—especially labor costs—will not end. In many ways (in the Service sector for example), it is only beginning.

As the data here illustrates, this is not the first transformation North America has endured as the entropy from creative destruction impacts our economy. But the question of whether the factual basis of the dialogue, whether talking heads and decision makers bother to get it right, says a lot about human nature. It is well established that everyone's—but particularly decision makers'—emotional state is affected by their evaluations of risk in the environment around them. Fear increases emotional stimulation and that stimulation itself reinforces the intensity of their fear response. Self-reinforcing loops of this kind can create unstable situations in which relatively mild fears build into panic reactions. Public panics are frequently fueled more by the cocktail of anxiety and “how it feels”, and less from thoughtfully and carefully examining facts, cause and effect.

The world is transformed by the perennial gales of creative destruction. As entrepreneurs, we adapt and evolve. Sailors have said for centuries, “It's not the gale, it's the set of the sail”. It is not the uncertain environment around us, it is our response to it. For seasoned, successful entrepreneurs, it is simply and undeniably more successful to allocate finite resources and act based upon the future, than to long for the past.

¹ United States Bureau of Labor Statistics (<http://www.bls.gov>)

² Library of Economics and Liberty (<http://www.econlib.org/library/Enc/bios/Schumpeter.html>)