

RE-MADE IN THE USA

HOW WE CAN RESTORE JOBS,
RETOOL MANUFACTURING,
AND COMPETE WITH THE WORLD



TODD LIPSCOMB

RE-MADE IN THE USA

HOW WE CAN RESTORE JOBS,
RETOOL MANUFACTURING,
AND COMPETE WITH THE WORLD

TODD LIPSCOMB



WILEY

John Wiley & Sons, Inc.

Copyright © 2011 by Todd Lipscomb. All rights reserved.

Published by John Wiley & Sons, Inc., Hoboken, New Jersey.

Published simultaneously in Canada.

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning, or otherwise, except as permitted under Section 107 or 108 of the 1976 United States Copyright Act, without either the prior written permission of the Publisher, or authorization through payment of the appropriate per-copy fee to the Copyright Clearance Center, Inc., 222 Rosewood Drive, Danvers, MA 01923, (978) 750-8400, fax (978) 646-8600, or on the web at www.copyright.com. Requests to the Publisher for permission should be addressed to the Permissions Department, John Wiley & Sons, Inc., 111 River Street, Hoboken, NJ 07030, (201) 748-6011, fax (201) 748-6008, or online at www.wiley.com/go/permissions.

Limit of Liability/Disclaimer of Warranty: While the publisher and author have used their best efforts in preparing this book, they make no representations or warranties with respect to the accuracy or completeness of the contents of this book and specifically disclaim any implied warranties of merchantability or fitness for a particular purpose. No warranty may be created or extended by sales representatives or written sales materials. The advice and strategies contained herein may not be suitable for your situation. You should consult with a professional where appropriate. Neither the publisher nor author shall be liable for any loss of profit or any other commercial damages, including but not limited to special, incidental, consequential, or other damages.

For general information on our other products and services or for technical support, please contact our Customer Care Department within the United States at (800) 762-2974, outside the United States at (317) 572-3993 or fax (317) 572-4002.

Wiley also publishes its books in a variety of electronic formats. Some content that appears in print may not be available in electronic books. For more information about Wiley products, visit our web site at www.wiley.com.

Library of Congress Cataloging-in-Publication Data:

Lipscomb, Todd, 1966–

Re-made in the USA : how we can restore jobs, retool manufacturing, and compete with the world / Todd Lipscomb.

p. cm.

Includes index.

ISBN 978-0-470-92992-6 (cloth)

ISBN 978-1-118-02581-9 (ebk)

ISBN 978-1-118-02582-6 (ebk)

ISBN 978-1-118-02583-3 (ebk)

1. United States—Economic conditions—21st century. 2. United States—Social policy—21st century. 3. Labor market—United States. 4. Industrial policy—United States. 5. International trade. I. Title.

HC106.84.L57 2011

330.973—dc22

2010045232

Printed in the United States of America

10 9 8 7 6 5 4 3 2 1

For my dear wife Kaori, daughter Lyndsey, and son Lance.
You taught me the real meaning of joy.

Contents

Introduction 1

PART ONE THE CHALLENGES AMERICA FACES

Chapter 1 Why Buying American Is Critical 11

Chapter 2 How This Happened: The Rise of the
Power Exporters and Wal-Mart 29

Chapter 3 The Energy Deficit Is Solvable 45

Chapter 4 Dispelling the Service Economy Myth:
Deindustrialization Means Fewer Jobs,
Lower Pay, and Less Opportunity 57

Chapter 5 Economic Judgment Day 67

**PART TWO HOW AMERICA'S COMPETITORS ARE
TAKING ADVANTAGE OF US**

- Chapter 6** China's Grand Game: The Rise of a
Superpower 87
- Chapter 7** The Unfair Playing Field Abroad 103
- Chapter 8** The Race to the Lowest Common
Denominator 121

**PART THREE REBUILDING AMERICAN
MANUFACTURING**

- Chapter 9** The American Advantage 133
- Chapter 10** What Can Our People Do? 149
- Chapter 11** What Can Our Government Do? 167
- Chapter 12** What Should Companies Do? 181
- Chapter 13** Bringing It Together: Action Steps
for America 195
- Conclusion** Be a Hero 211
- Notes 219
- Acknowledgments 223
- Index 225

Introduction

Just a few short decades ago, our country led the world in manufacturing and politics. In those few intervening years, the tide has turned. We've largely lost our manufacturing base and seen the twilight of our political leadership. At first glance, those concepts might seem far removed from the average American's life. It's sad, of course, to see a strong and innovative country like the United States decline, but it's very easy to get caught up in the day-to-day details of living our own lives and think of global issues as simply too big, too distant, to be our primary focus. In fact, there is no distinction. The future of the United States is our future. Manufacturing and political influence are inextricably intertwined with that future, and with the solid middle-class jobs manufacturing provides.

Today, we stand at a crossroads, called to choose between renewal and stagnation. Yes, today's circumstances are dire and discouraging. We're surrounded by economic decay and all that stems from it. But make no mistake: We have a choice. There is hope, if we believe. There is hope, if we are willing to act.

Living and working in Asia for more than seven years gave me some disturbing insights into America's place in the global market. The imbalance in the present trade situation is ominous; every other nation I've observed or studied puts its own interests first. Only in the United States are we handicapped by the rules of "free trade." That we deem such a vague concept as more important than our own factories and people is a joke abroad. The lessons I learned in my years in Asia, and what they mean to the USA, haunt me to this day.

Those lessons inspired me to found MadeinUSAForever.com, which has grown into a significant resource for those interested in buying products made in the USA. But I wanted to do more with the information and motivation I'd gathered overseas. I started the company in 2007 with a handful of suppliers for the purpose of creating options for those who want to buy American. The response has been beyond my wildest expectations. We now have thousands of products and tens of thousands of customers.

I am often asked why an expert on Asia would go to all this effort for the USA. Was there a single reason? Some sort of epiphany? A moment of realization? It was more like a dozen or more reasons and ideas coming together over time. One defining moment came when I held my newborn daughter in my arms for the first time and realized what this country's decline would cost her and her generation if we didn't take action now.

My education and background are in finance, although I have always had a love of history. I have read hundreds of history and cultural books, and leapt at the chance to live in Asia, twice. Living in Asia broadened my knowledge base tremendously and gave me a great deal of real-world experience abroad. As my knowledge grew, it became disconcerting as I watched American coworkers come to Asia, spend a few nights at the Hilton, and return home as "experts." It was important to me to get out among the people and familiarize myself with the history and culture of each locale and country. The lessons I learned related not just to what I was seeing, but to our own people and our great nation, as well.

Global relationships have changed dramatically over the past several decades. No nation or population is isolated today. And few individuals have enough information to truly understand the complex web of connections and influences. Those currently in power

positions in business and government are often well served by keeping that information under wraps. Ten years ago, I still believed what I had learned in college about America and our place in the world: “Free trade” was innately fair, and if we had a problem here, it must be because wages were too high. That view proved to be far too simplistic. I have seen firsthand that we are the only major nation with its doors wide open to imports. Efforts to export to any other major nation are met with countless obstacles. Why? Because every other nation takes care of its own interests first.

Many in Washington and Asian capitals realize the United States is too open and that the trade imbalance has created a grotesque, unsustainable situation. Cheap goods are exported to this country in exchange for currency that is then loaned back to the United States, perpetuating the system. Asia gets the factories and the future. We get cheap goods today and a dire future. Yet nothing is done about it.

Sadly, many American businesspeople not only ignore the problems, but encourage them. Procurement officials for major chain stores send drawings, designs, and other information about items produced by their American suppliers abroad, in search of lower and lower prices. Previous generations of retailers, bankers, and corporate executives remembered that they were Americans first, and were conscious of, and took responsibility for, the impact of their choices on our national economy. Today, it seems that many remember that they are Americans only when they need a bailout. This ultrashort-term view values a penny in cost over keeping an American factory down the street in business. It also encourages lower-quality imports. Planned obsolescence keeps the cycle going, and encourages Americans to send more and more dollars overseas.

Put it all together and we see the true cost of this model in American unemployment, falling real wages, and massive debt—and those are just the economic factors. We’re also feeding a lack of worker safety, product safety, and pollution controls in these foreign factories. The end result is a model in which we get chintzy, throwaway products at cheaper and cheaper prices. To shoppers seeing lower prices at the register, it might seem beneficial, but this trade and debt imbalance is not mathematically sustainable on any level in the years to come. Ultimately, we will all pay a hefty price for those few pennies saved today.

If it sounds like I'm biased in favor of the USA, it's because I am. After many years of studying history and foreign cultures, I strongly believe that there are unique, special things about this country that must be preserved. We take it for granted today, but freedom and democracy are actually very rare exceptions to the rule in history. Even today, billions of people live in tyrannical police states or in near chaos. Our system is not perfect, but it has allowed for amazing creativity, scientific excellence, and personal growth and achievement. This shining light of freedom must be preserved and protected, lest we fall back into a dark age. Don't believe me? Ask anyone in China to discuss politics. Step outside that fancy hotel in Beijing and ask why no one dares to criticize the government.

Many of the threats to our great nation, our standard of living, and our traditions come not from the outside, but from internal issues. Consumerism runs amuck; that which focuses only on initial retail price without considering quality or the conditions in which the goods were produced, has long-term consequences. We send money abroad to buy not investments in our future, but cheap consumer goods. We then borrow hundreds of billions of our own dollars back every year to sustain our consumption. If we were borrowing to build something for the future—roads, universities, schools, hospitals, factories, power plants, and so on—it could be excusable, even reasonable. Unfortunately, the borrowing is nearly all for consumption of the moment, poured into low-quality goods that will be used up or discarded long before the interest on that debt is paid.

In *The Art of War*, Sun Tzu—a Chinese general (circa 544–496 BC)—wrote, “If you know the enemy and know yourself, you need not fear the result of a hundred battles.”¹ For him, politics and war were both tools of national policy. Today, we must include economics as such a tool. Without question, trade is being used to push national goals and grow future superpowers. Our naive view that free trade among nations is good under any circumstances puts us at a huge disadvantage.

And the damage isn't purely economic. The apathy that this cheap consumerism encourages weakens our core values. Fewer people bother to stand for what is right, or even remember that we were once a nation governed by strong principles and ideals. We were a diverse nation with conflicting views, but people cared. In the end, we

would come together as a people and fix real problems. Together, we fought Nazi Germany and Imperial Japan at the same time in World War II, threw off the yoke of the Great Depression, and became freedom's champion.

Our outlook today is bleak, but our problems are not as severe as those we faced during World War II. We still have time to act, and the ability to turn the tide. But that time is running out. Ignoring problems of this magnitude is like ignoring cancer. In many cases, it can be cured if it is identified and attacked early, but the longer one waits, the stronger the disease's foothold. Possible treatments become harsher and more risky until, eventually, there is no cure at all.

For me, there was no escaping these truths. Although I was personally getting richer, my country was, and still is, getting poorer. It was easy, even tempting, to turn a blind eye to it. But in the end, we are defined by the choices we make.

My choice meant leaving behind a lucrative executive role at an American technology company to start my own venture. That company would serve as a vehicle to challenge the deficit model and give people an actual choice, a business dedicated to nothing short of helping America to keep her manufacturing capability. Every day, we are able to make a real difference to our suppliers and our country. Thanks to those who visit the Web site (MadeinUSAForever.com) and our suppliers, there is meaning and purpose in every exhausting, yet exhilarating minute of it! Remember when that's what our great country was all about? Sadly, that feeling and the commitment that inspires it have slipped away from many of us; but it can be reclaimed.

No matter what your profession, your income level, your age, or your geography, you can take action and make a difference. This book will help you begin to see how, but it's just a beginning. As your focus shifts to the future, you'll discover new ways to put your beliefs into action every step of the way. The knowledge I have gained helps me every day; at the same time, I was quick to discover a new sort of modesty when I realized the vast amount I still needed to know to run a small business effectively and efficiently. Some lessons can be learned in books, but most have to be learned in practice. Nothing teaches like doing or creating.

The first step, the most important step, is simply to decide that you're ready to live consciously, to think about the future of the USA

and of the children who will have to live with what we create, what we leave behind. Executives in other nations are nationalistic: They are Koreans first if they are Korean; Japanese first if they are from Japan. Toyota invests twice as much in Japan as in the United States—although the company sells more cars in this country than its own. Why is that? The Japanese never forget who they are or where their future lies, whereas American executives talk about ethics even as they shift millions of jobs to Asia.

Henry Ford, who had a lot of strengths and weaknesses, created an affordable car and paid his employees enough to buy it. He helped create his own customer base and bolstered the early American middle class. Today's executives, in contrast, are killing off their own customer base as they eliminate middle-class jobs, and then look to Washington for a bailout. We truly need to shake up the boardrooms around America. I have some ideas. . . .

The problems we face as a people are many, and we have all contributed to them. Business contributes, consumers contribute; and, sadly, even those in government, charged with protecting the USA and its people, are often part of the problem. A trade policy originally instituted to deal with friendly countries like Canada and the United Kingdom, or to bolster Japan and Korea against the Russians and Chinese, is now being taken advantage of on a massive scale by countries that are hardly our friends. It is no surprise they are from places like China, where massive pollution and lack of worker safety is the rule. Turning a blind eye to history means we are ignoring obvious lessons that should have allowed the United States to grow and lead the world in a new age of freedom—for centuries, not just a few decades. As much as I love the USA, ignoring history seems to be one of the things we do (or don't do?) best. Other nations know better. They watch in disbelief as we lurch forward, making mistakes such as spending more than \$1 trillion on the war in Iraq, mystery stimulus plans, and other budget busters. All of this and more inspired me to write this book, and drove the creation of MadeinUSAForever.com.

The book is divided into three parts: "The Challenges We Face," "How America's Competitors Are Taking Advantage of Us," and "Rebuilding American Manufacturing."

Part I, "The Challenges We Face" encompasses a discussion of the current economic threat to our way of life; a brief historic discussion of

how our politicians and business leaders have ceded our advantages; an overview of the historically unprecedented twin deficits in energy and production, and how they are gutting our economy; an explanation as to why service industry jobs can't, and won't, replace manufacturing as the backbone of the U.S. economy; and an introduction to the two wildly disparate possibilities for our future as a country.

In Part II, "How America's Competitors Are Taking Advantage of Us," I discuss our place in the world, from both a business and political standpoint, and share my firsthand observations of Beijing's awareness of the importance of manufacturing power to the political arena, and effectiveness in acting upon it. This part also addresses free and fair trade and describes how the playing field is stacked against us by foreign governments; here, I give actual examples of how many of our own retailers not only prefer to buy from sources that result in job loss for this country, but will seek out the absolute cheapest places to make products, despite egregious exploitation of those peoples and places.

Part III, "Rebuilding American Manufacturing" shifts the focus to what we are doing right and how we can turn our natural strengths as Americans into direct action, individually and as a collective. Finally, I discuss what the government can do, and what some great American companies are already doing, to restore our place in the world.

The situation, as I said, is dire; as you read this book, you will undoubtedly find some of the facts disheartening, and recent developments discouraging. But America's spirit and gumption are alive and well—the same spirit that carried us through World War II, the Great Depression, and many other threats to our way of life. From those challenges, we emerged victorious and went on to greater heights. We can, and will, do it again—but only if we make the decision, today, to invest in our own future.

In the end, it is not about what China or any other country does or does not do. It is about the route we choose. Do we take the difficult path today or the one that looks easy from where we stand today but that will be much rockier tomorrow? One road leads to a place where we fulfill our own destiny to renew our nation's greatness. The other carries us through inaction to ultimate collapse. Today, we stand at the crossroads; we have the opportunity to choose the path to greatness, to a secure and prosperous future.

Are you with me?

PART

One

The Challenges America Faces

Chapter 1 Why Buying American Is Critical

Why is the massive trade imbalance a critical problem for you and me?

With so many immediate problems facing us, personally and as a society, it's easy to ignore broad and seemingly distant problems. But many of the challenges we face as a nation today—a decaying economy, unemployment, falling wages, lack of opportunity, spiraling government debt, fractures spreading through every level of our economy—can be traced back to one source: the massive trade deficit. Our immediate personal issues, and the larger issues facing our country, are intimately related, and so are the solutions.

Recessions are getting longer and deeper. We are facing more, and more extended, periods of high unemployment. Even those who did everything right may spend months or even years unemployed (see Figure 1.1). So-called experts eager to calm our collective nerves talk about “jobless recoveries” and other such nonsense, but the concept is just that—nonsense.

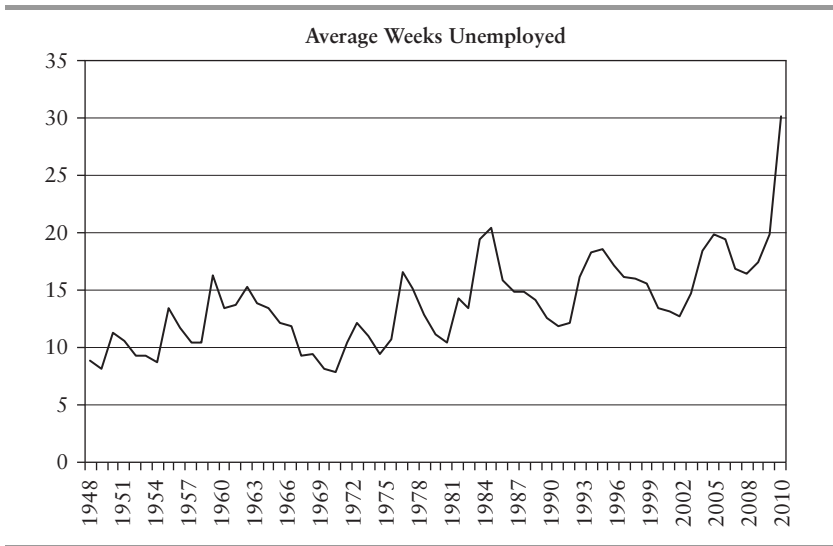


FIGURE 1.1 Labor Force Statistics from the Current Population Survey

The simple fact that we are not trading in a sustainable way with other countries impacts jobs, wages, product safety, and many other areas of our daily lives. The reality of our economic decline has already affected millions of people and will hit tens of millions more in the near future.

This is not just theory for huge numbers of our citizens. People all around us are being hit, and hit hard, through no fault of their own. One acquaintance, a CPA who had built a solid career, faced nearly two years of unemployment after losing his job early in the most recent downturn. The loss had nothing to do with his performance; the company simply had shrunk so significantly that there was no way to avoid being cut. In his midfifties and with kids in college, he was forced to spend much of his savings just when he should have been shoring up for retirement. He recently accepted a job where he makes about 40 percent less than he did in his previous job.

A customer who called MadeinUSAForever.com mentioned to me that she is the primary caretaker for her 15-year-old granddaughter, and that her work hours have been cut significantly. Fortunately, she has not lost her job—yet—but the reduced pay has caused a very real

problem, and she is unsure how she will pay for her granddaughter's braces. But her worst fear is losing that job.

These are just two examples among many. Every one of us knows good, hardworking people facing similar hardships. Wages are down, and many of those who have managed to find jobs after extended unemployment are earning only 50 to 60 percent of what they used to make. Most of us could find ourselves in that position, abruptly out of a job despite solid performance, and with nothing but a year or two of unemployment standing between us and hard times.

Our deindustrialization exacerbates another growing problem. Many local and state governments—and, soon, even the federal government—are facing a severe lack of tax revenue cash coming in. If something doesn't change quickly, these government entities will soon find themselves unable to fulfill pension commitments, or provide even basic services. Our federal government has already had to borrow heavily from foreigners, and is becoming more dependent on them every year (see Figures 1.2, 1.3, and 1.4).

We hear “there's no easy answer,” and that may be true, but there is a simple one. In most cases, the economic activity that manufacturing creates would generate the revenues necessary to support our cities and states. Without that activity, governments at every level

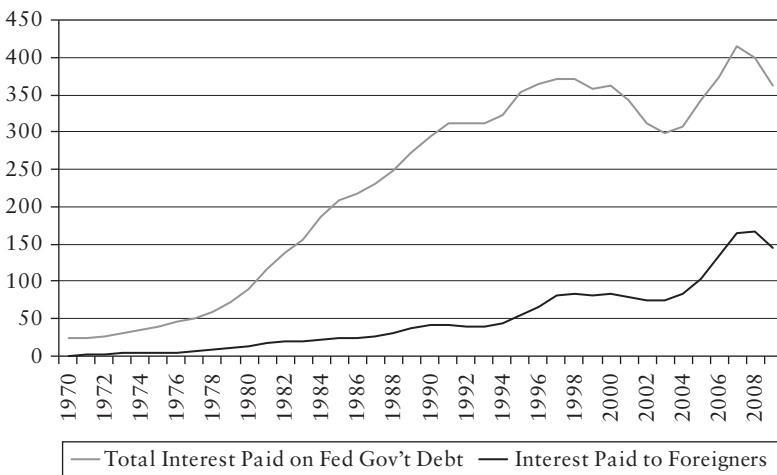


FIGURE 1.2 Interest Paid on U.S. Federal Debt

Data Source: Bureau of Economic Analysis.

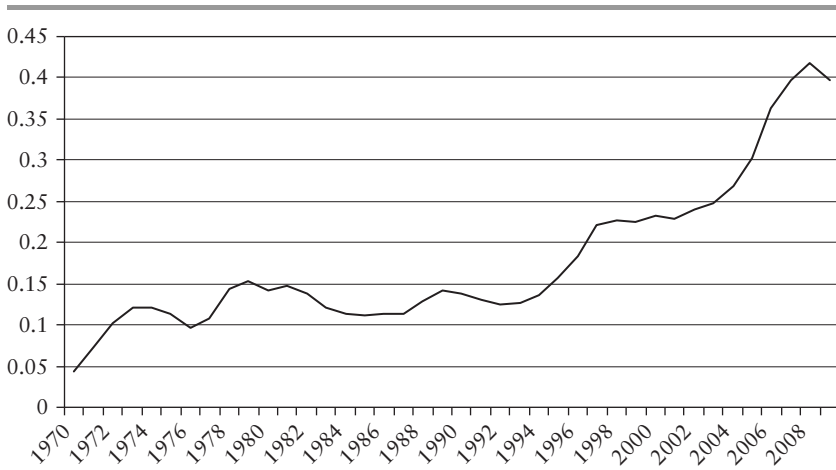


FIGURE 1.3 Percentage of Federal Debt Interest Paid to Foreigners

Data Source: Bureau of Economic Analysis.

will face permanently lower tax revenue collections, which will crimp their ability to borrow, causing many to collapse financially. Financial collapse would mean a depression era for decades to come, marked by extremely high unemployment rates, low wages where there are jobs, and even hunger for many.

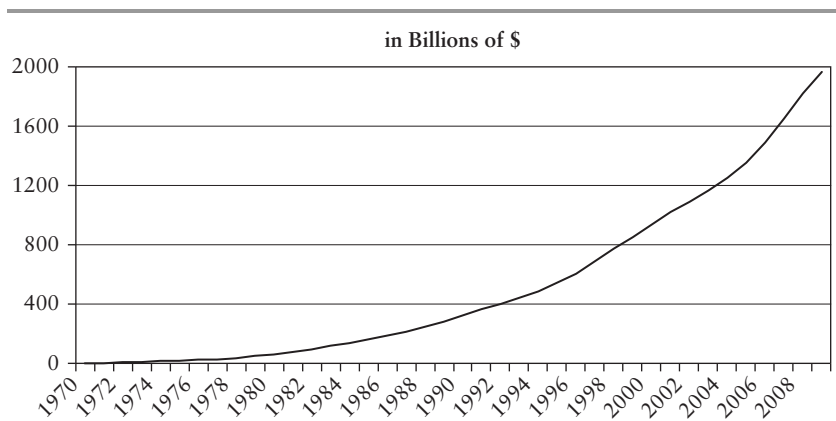


FIGURE 1.4 Cumulative Federal Debt Interest Paid to Noncitizens (1970–2009)

Data Source: Bureau of Economic Analysis.

It's tempting to blame the federal budget deficit on overspending in Washington, but the truth is more complex, with multiple factors coming into play. A lack of tax revenue coming in the door, due to a declining economy, limits the ability of any governmental entity to do its job. Raising taxes may seem like the solution to some, but with the decline in both employment and average wages, the income available for taxing has also declined. And in a faltering economy, increasing taxes does further harm, since consumers then have even less disposable income to feed into the system. Every year, hundreds of billions of dollars leave our country to pay for imports. With more strategic spending, those dollars could help to rebuild our economy, crumbling infrastructure, or educational system. No nation's economy can withstand that kind of wealth transfer for long, and we're seeing clear signs that we've reached the breaking point.

Our middle class is already fading. We once took it for granted that our children would lead better lives than we did, yet today many young people look at their parents' jobs with the envy of those who have witnessed something that can never be theirs.

Many once-great cities are facing unemployment rates so high that disenchantment grows. In some, unemployment rates for people under 30 are at 30 to 40 percent. A significant sector of the generation we need to lead our country into the future has no stake in our society, and little or no personal experience to demonstrate that working hard and creating quality products is in any way tied to personal or collective success. Those young people with no vested interest in our society have little to lose, and thus are more susceptible to involvement in crime and drugs. A few short decades of massive deficits have taken us from a golden age to an era of growing despair. That's why it's so critical that we act now to reduce the trade deficit by buying American-made products, and that we begin immediately, before the situation spirals further out of control.

This is not a detached concept or a philosophical political issue best left to those in academia to sort out. The choices you and I make every day, every time we step up to a checkout counter or place an order online, affect the future of the United States, our personal economic futures, and the kind of world our children will live in.

In later chapters, I'll talk in more depth about specific problems and possible solutions, but first let's look at the basics: the top 10 reasons

I believe you should buy products made here in the USA, as listed on MadeinUSAForever.com.

10. FOREIGN LABOR STANDARDS ALLOW UNSAFE WORKER CONDITIONS IN MANY COUNTRIES. WHEN YOU BUY AMERICAN, YOU SUPPORT NOT ONLY AMERICAN MANUFACTURERS BUT ALSO AMERICAN WORKERS, SAFE WORKING CONDITIONS, AND CHILD LABOR LAWS.

At Chinese factories, even “model” facilities used by contractors that build for Apple, HP, and others similar, suicide is common. I know from experience in the technology industry and working in Asia that these contract manufacturers bid below cost to win deals with well-known companies like Apple. After they win the contract, they put extreme pressure on their employees to drive down their costs to a point at which the contract is profitable. Again, that’s at the “good” factories! I have seen Chinese contract manufacturers take it a step further: They make up for losing money by passing work to subcontractors that cut every corner. Working conditions are far worse at these subcontractors—which, in fact, make up the majority of the actual production. Those subcontractors may then push production even further down the line, to smaller subcontractors, until the original maker has little connection to the process and no ability to oversee quality or working conditions. With each step, those conditions deteriorate further.

Often, local government officials are not just on the payroll, but own shares in the local companies where dangerous conditions prevail. We might expect that those officials would be cautious, given their reputations are on the line; instead, the lack of government protection for workers remains at least as lax as it is in other factories. Sometimes, conditions are considerably worse, since the management feels safe from prosecution. By purchasing these products, we reward and perpetuate abusive working conditions.

More than 2,600 people “officially” died in Chinese coal mining accidents in 2009. Fires, floods, gas, electrical accidents—the causes ran the gambit—but the reason, across the board, was serious worker safety issues. The actual numbers are probably much higher, as many mines operate without an official license. Buying products created

under these conditions is neither ethical nor consistent with concerns about worker safety and the value of human life.

9. JOBS SHIPPED ABROAD ALMOST NEVER RETURN. WHEN YOU BUY GOODS MADE IN THE USA, YOU HELP KEEP THE AMERICAN ECONOMY GROWING.

Previous recessions meant factories slowed down to one shift, or even briefly stood idle; but now these factories are disappearing by the thousands, and are not coming back. The difference between cutting back and closing is critical: Once a factory closes completely, it rarely reopens. The machinery is typically shipped overseas or scrapped, leaving local economies devastated. It is very hard for a community to regrow its local economy. When a large number of skilled positions are eliminated in an area, the skill base of the former employees starts to fade almost immediately, and valuable skill sets are lost forever.

For example, one of the major factors in our victory in World War II was our ability to build and transport a massive volume of materials and weapons. The “Liberty Ships,” with the capacity to carry more than 10,000 tons at a range of 23,000 miles, made that possible. Eighteen shipyards around our nation built more than 2,700 of these ships in four years, a phenomenal display of industrial aptitude, power, and gumption, which our enemies could not hope to match.¹ Those shipyards are mostly closed today, and the skilled workers long gone.

Today’s unemployed are spending not weeks or even months, but years between jobs. Skills rust, new technology renders them obsolete, and the once-skilled laborer must essentially start from scratch. Most of them were good employees who worked hard and did nothing wrong, but their specialized skills that once were valuable to the manufacturer often do not translate to qualification for available jobs. The ability to make advanced tooling carries no weight when the only job opening is “Wal-Mart greeter.” Likewise, Wal-Mart and other companies of its ilk do not teach skills that prepare employees for the kind of work America needs.

When a factory closes, the emotional and financial toll it takes on displaced employees and their families is compounded by the heavy impact it has on the community. High levels of unemployment lead to an increase in foreclosure rates, lowering property values and