

The Economy in Perspective

Dude, Where's My Economy?... Objectively speaking, the U.S. economy seems to stand on solid ground. Production and spending accelerated throughout 2003; by year's end, employment had begun to expand, albeit moderately. Moreover, business and consumer sentiment strengthened throughout the year, and the stock market—the ultimate financial arbiter of expectations—rebounded impressively. Mainstream economic forecasts for 2004 anticipate continued solid growth in economic activity, with joblessness receding and inflation remaining dormant.

Yet the nation still has economic issues to contend with, and public opinion is divided regarding the best course of action. One question that commands attention nationally, but particularly in the Midwest, is the fate of the country's manufacturing sector. Even manufacturing's most ardent supporters acknowledge that, for many decades, its contributions to U.S. gross domestic product and employment have been shrinking as a proportion of the economy as a whole.

Such a trend by no means implies that manufacturing businesses or employment have become, or are becoming, unimportant to the country. In fact, improved productivity growth in manufacturing industries is a prominent explanation for manufacturing's smaller share of the growing national work force. Over time, strong productivity growth has lowered the prices of many manufactured goods compared to services. And the manufacturing industries can hardly be blamed for another significant factor in the service sector's expansion—that consumer preferences for services increase disproportionately as household wealth and income increase. Think medical care.

Innovation, productivity, and shifting consumer preferences go a long way toward explaining which industries expand and which contract. Within the context of these longer-term forces, international trade certainly provides additional challenges, as well as opportunities, for domestic manufactures. Some of today's business and civic leaders are fixated on the challenges of competing with firms that operate in developing countries, despite two facts. First, longer-term fundamentals historically have influenced the overall size of the manufacturing sector more strongly than foreign competition has.

Second, as developing nations mature, they provide expanding markets for U.S.-made goods in which we have a comparative advantage. These desirable items might not be the same ones that originally built up Midwestern manufacturing towns and, in the future, they might not be made in those places either.

As our nation matured, some towns that once prospered because of their location or natural resources were overtaken by innovation, migration, and new methods of doing business. Then, a century ago, the United States entered a stage in which its economic power was expanded tremendously by, but also concentrated in, the hands of monopoly trusts. Abuses of power and corruption doubtless augmented the strength of these trusts, but innovation and productivity were the real forces behind them. It simply made business sense to standardize products, produce in large batches, and streamline the distribution and retailing channels.

We should recall that this era of industrialization brought not only general prosperity but also a reconsideration of the norms of competition and social justice. Innovation and trade can disadvantage some, but they have the potential to create far more winners than losers. Our response to the challenges posed by global trade should not be to resist change but to establish and abide by rules of fairness among the countries that are emerging on the world stage. If we are committed to a world in which nations trade freely with one another, then we must inevitably adjust to the consequences of that commitment.

Fortunately, despite the many trials that lie ahead, the American public seems optimistic about the economy. For example, according to information collected by the Roper Center for Public Opinion Research, the overwhelming majority of respondents to several 2003 surveys expected that the economy would be in better shape after another year and they reported that they were very happy overall in their lives. It is true that most respondents to a December 2003 survey described the nation's economy as "not so good" or "poor," but then again, respondents answered this question the same way in 1993.

Hey, people may feel down, but they know they're not out. Dude, that's my economy!