

GLOBALIZATION

Holland Professional Club Presentation

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Turbulent times. Here's a description of turbulent times. A weak dollar and a concern for the underpinnings of the U.S. economy. Manufacturers concerned about losing their manufacturing base to regions offering lower costs. Import tariffs creating angst and argument among business and political leaders.

Sound familiar? I'm describing the 1890's. Those were important concerns of my great grandpa and other owner / presidents of furniture manufacturing companies in West Michigan.

The 1890s. Back then about 40% of all those employed in the four-county area around Grand Rapids and Holland were working in some aspect of furniture manufacturing. How did that happen?

In the early 1800s furniture making was centered in places like Boston, New York and Philadelphia. Then furniture manufacturing migrated to West Michigan because of lower labor rates, abundant forests and access to the burgeoning west. Grand Rapids became *The Furniture City*.

By the 1890s the U.S. economy was changing. Some business and political leaders proposed import tariffs to help preserve American jobs. The dollar was weak, there was a raging debate about the gold standard and a public panic relating to silver. A German cartel forced the prices of mirrors used in furniture production to remain uncompetitively high. Great grandpa wrote that Sligh Furniture Co. almost went out of business, that he worked day and night for years to bring it back and of his five decades in the business, from 1880 to when he passed away in 1927, the 1890s were the toughest.

Tonight we'll discuss globalization. It's not a new phenomenon. In fact globalization was in full swing in great grandpa's era. Then the forces of protectionism, collectivism and militarism set the world back dramatically....until recently. We'll explore this history, often personalizing it through the lens of my experiences in the furniture industry.

Tom Larsson, author of the book *The Race to the Top* says globalization is: "The increasing ease with which somebody on one side of the world can interact, to mutual benefit, with somebody on the other side of the world."

Martin Wolf, author of the book *Why Globalization Works* says that globalization means three things: "One, increasingly integrated markets across national boundaries; Two, lower government barriers to the international flows of goods, services and capital; and Three, the global spread of market oriented policies."

Or, in the imprecise but entertaining lingo of *New York Times* columnist Tom Friedman, globalization means "*The World is Flat*."

In some respects, our world today is no more integrated than it was a century ago, before the throw-back era from 1914 to 1945. The pity is not that there's been too much globalization, but that there's been too little.

The most impressive episode of international market integration occurred between 1870 and 1913. That was the period that saw the largest decline ever in barriers to intercontinental trade. Though increasing tariffs stunted the full potential of the era, immigration and capital mobility helped create unprecedented improvements in the human condition.

During this period of industrialization, some people felt lost – dizzy and adrift in a surging flux. Karl Marx and Friedrich Engels wrote in the *The Communist Manifesto* this description: "Constant revolutionizing of production, uninterrupted disturbance of all social conditions, everlasting uncertainty and agitation.....All that is solid melts into air."

To people looking for an opportunity to better themselves, the industrial revolution was a dream come true. Gone were the constraints of social class, replaced by meritocracy. Leaping improvements in productivity brought the price of a wide range of products within reach for a burgeoning middle class.

But Marx and Engels spoke to people's fears. While the new era offered opportunity, it did not offer guarantees. Where there is the opportunity for spectacular gain, there is also the risk of devastating loss.

Edward Bellamy's book *Looking Backward* was published in 1888. It quickly sold hundreds of thousands of copies. In the novel the central character falls into a trance and wakes up 112 years later, in the year 2000. He observes a consolidated world, organized efficiently like one large corporation. All citizens between the ages of 21 and 45 are compelled to serve and receive equal pay. Merchandise is standardized. This new world is visualized to eliminate what Bellamy considered to be the four great wastes of the market system: Mistaken undertakings. Competition. Gluts and shortages. Idle capital and labor. In the age of individualism, his central character mused, people held up umbrellas against the rain and the water ran off the umbrellas onto people next to them. Some people had umbrellas and others did not. In this new age imagined for the year 2000, there was no need for umbrellas because the sidewalk coverings unfurled automatically and everyone stayed dry. That metaphor encapsulated the collectivist's utopia, a misguided dream that captured the imagination of intellectuals and the political class in its day and set back global freedom more than half a century.

In 1913, merchandise trade as a percentage of gross output totaled about 11.9 percent for the industrialized countries. That level of trade performance was not matched again in those countries until the 1970s. The volume of international capital flows relative to total output attained heights during the early 20th century that have not yet been recovered.

In the 1920s Sligh Furniture Company employed about 1,500 people in a plant in downtown Grand Rapids. The great depression that followed wiped out most of the home furniture manufacturers in West Michigan. By the 1930s, West Michigan lost its dominant position in the home furniture industry. The new center of home furniture manufacturing was in lower labor rate areas like North Carolina and Virginia.

Grandpa felt Sligh could survive in Michigan if it moved to a much smaller plant. He convinced Bill Lowry to come back from the south and become a full partner. They moved Sligh from Grand Rapids to a small factory in Holland in 1933, retaining 45 employees. Still, they were losing money.

Sligh was a bedroom furniture specialist back then. Trouble was making a run of beds, then dressers, then night stands and finally shipping complete to dealers was using way too much capital for a depression economy.

It was Bill Lowry who came up with the idea of selling desks. Make a hundred or two, ship immediately and get paid. From that point forward and for the rest of the depression, Sligh stayed profitable. Desks saved the company.

Some office furniture and high-end, home furniture companies in West Michigan survived the depression and prospered. In 1998, 4% of employees in the four county area around Grand Rapids and Holland were employed in the furniture industry compared to 40% a century before. Today high tech manufacturing thrives in West Michigan along with new growth sectors like life sciences, technology and services. Though it's not the furniture center it once was, West Michigan is still a great place to live and work. People and communities can adapt.

In the past decade or so we've witnessed the continuation of a home furniture manufacturing migration to lower labor rate areas. In our era the migration crosses national frontiers to places like China. But it's the same trend the home furniture industry has followed from the founding of our country. And it will continue.

At least fifty-four percent of all wood home furniture sales to U.S. consumers in 2004 were made up of products manufactured outside the U.S. That fifty-four percent would be higher if analysts could figure out how to account for components that are manufactured outside the U.S. and assembled into products that are counted as U.S. production.

As economics are moving furniture manufacturing processes to lower labor rate areas outside the U.S., domestic plants are closing. There is more furniture manufacturing capacity in the world than consumer demand. Too much furniture manufacturing capacity in the U.S., too much capacity in China, too much capacity in other countries around the world compared to demand.

In the broadest sense, we know what's ahead. After a period of relentless downward price pressure, a lot of organizations will go out of business. Manufacturing capacity will be aligned with demand. That's how capitalism works. It's a process that can be painful but it's also impartial and effective. Ours is an era of spectacular change.

These changes take a human toll. If I had a magic wand I'd want to use it to make it easier for those of us deeply affected by these changes. I know how Grandpa felt laying-off so many people in the late 1920s and early 30s. On a smaller scale, I've had to do that too.

Sligh's employment five years ago was 400 and today it's 25. Our products are primarily made in China, Indonesia and the Philippines. In September we stopped production in our last Michigan plant. I've known many of the people affected virtually all my life.

After the May 11 announcement about our discontinuing production in Holland in September, three TV stations and two newspapers showed up at our plant. I couldn't be with all of them, so we gave the news teams the run of the place. They took full advantage of the opportunity, interviewing and filming dozens of our people. The Channel 8 reporter said he's covered over 100 plant closings and Sligh is the only one where not one person had a bad thing to say about the company. He concluded his evening news report with this: "They say at Sligh your name doesn't have to be on the door to be part of the family. You get the feeling it's really that way."

Following our May announcement, we didn't know what to expect in the Holland plant. What happened is that productivity actually went up. Quality reached levels of near perfection. I asked our people about it. They related a determination to make products they could always be proud of and to *finish well*. I feel proud to have been associated with people like that; people of such good character.

When people and communities live through the trauma of reshaping business models to respond to world competition, it's only human to wonder: Is it fair? Shouldn't we do something to stop this or at least slow it down? People are getting hurt.....this can't be right.

We must help each other through these transitions. We know these changes are good for each of us and all Americans in the long run. Reinvention frees us up to productively invest our time in ways that are more highly valued in the marketplace. But in the short run it takes gobs of energy and determination to learn new skills and apply them in new ways. It's important to encourage each other through the transition.

Holland is a great community. Fifteen area companies worked closely with us to identify where job openings matched the skills and ambitions of our people in the Holland plant. Many of those businesses interviewed our people on site at Sligh. Most people affected by our Holland plant transition have landed on their feet.

We know that allowing freedom in the marketplace benefits all Americans tremendously through lower prices for goods and services. For example, lower prices through free trade dwarfs the benefits to all Americans of any of the federal tax cuts in recent decades, as important as those tax cuts were.

History teaches us that free trade brings prosperity, growth and higher living standards, benefiting both rich and poor. The adjustments forced by economic freedom, though gut wrenching for those of us directly involved, result in the most efficient and effective use of time, talent and capital.

If we want America to grow, then we will want high levels of trade. The two go together. High levels of trade are not only good for America but also good for the world.

As global trade increased over the past 40 years, average income in the world almost doubled. The poorest fifth increased the most, more than double. The richest fifth also increased but at a lesser rate of about 75%.

World hunger is declining. Life expectancies are increasing. There is social mobility.

Today China and other Asian countries are bustling with wood furniture plants. Just a few years ago, Chinese furniture factory wages were a little over a dollar a day. People came from the inner provinces by the tens of thousands to earn wages for the first time in their family history. Prior generations had lived off the land. Capitalism is working its magic in China. In the factories I've visited over the past five years wages have as much as quadrupled. And in China, economic freedom is arguably the best chance to peacefully break communism's death grip on political freedom.

Last year a coalition of companies making bedroom furniture in the U.S. successfully pressed anti-dumping claims against bedroom furniture produced in China. Retailers and some manufacturers strongly opposed the tariffs arguing that the U.S. law itself is unfair and in any event the interests of the most Americans are served when there is free trade.

At Sligh we've been out of the bedroom furniture business since 1957, so we had no business stake in the outcome of the dumping claims against bedroom furniture manufacturers in China. Here are some observations. As tariffs against bedroom furniture from China were erected, bedroom furniture production shifted to places like Vietnam, Thailand, Malaysia, Indonesia, and Brazil. Chinese bedroom furniture factories shifted to production of other wood furniture products. Costs of disruption and transference were high. U.S. furniture factories continued to close. Worldwide overcapacity in wood furniture manufacturing actually increased. Some say it was a good fight. Others disagree. Certainly the lawyers made out well.

There are important actions that the U.S. government can take to help U.S. workers and U.S. consumers. In my opinion, that list does not include trade barriers or more regulations.

The keys to American competitiveness and American prosperity are limited government, free trade, learning and adapting.

Government must shrink to its constitutionally limited role. In 1900, government spending at all levels was 7 or 8% of national income. In 1950, it grew to 26%. Now it's ballooned to about 43%. President Clinton declared the era of big government was over and government continued to grow. Under our Republican president and congress today, federal government discretionally, non-military spending has grown faster than at any time since the Johnson administration. This is an overhead burden on all U.S. businesses that hurts U.S. workers and U.S. consumers.

High taxes and high costs for Social Security and Medicare punish U.S. workers and send their jobs abroad. We should give people control over their own money and reduce and greatly simplify taxes.

In short, our taxes are too high and our government spending is way, way too high.

We need government. Strong and effective government, limited to its proper role, is essential to the vitality and proper functioning of markets. The great public good of market competition depends on well defined property rights, contract rules and a legal infrastructure. Our security depends on a strong defense. Market liberalism calls for government to shoulder its important responsibilities and restrain itself from activities outside its appropriate role.

Job retraining and safety net maintenance is important. In job retraining and safety net maintenance, there is a role for personal initiative, family, friends, churches, charities and sparingly, government.

Free trade does not mean the end of manufacturing in America. America may not be the best place for some labor intensive manufacturing processes like wood home furniture, but American firms are the best for many other manufacturing processes. Overall manufacturing output from U.S. plants has doubled since 1980 and it can continue to grow. American manufacturing productivity leads the world. Chemicals, pharmaceuticals, medical equipment and computer chips are examples of American manufacturing growth industries. Trim the U.S. government overhead that burdens our manufacturers and watch manufacturing create more American jobs and make innovative products accessible to more people.

America should pry open the legal gates to welcome many more skilled and educated immigrants. The National Academy of Sciences estimates that a college educated immigrant creates a positive impact of \$198 thousand, paying far more in taxes than they receive in social spending. An immigrant with less than a high school education costs other taxpayers \$13 thousand...a negative impact. We need more college educated immigrants.

About 1 million people immigrate to America annually. Only 65 thousand of them are foreign professionals that enter the U.S. on an H-1B visa. The qualified demand for H-1B visas greatly exceeds the 65 thousand slots available annually. And H-1B visas are only good for three years, with the possibility of a three year extension. Highly educated and skilled scientists and engineers should become a much higher proportion of the million people we allow to immigrate annually to America. And if they want to stay, we should let them.

Elementary and secondary education in America needs to be improved so more of our young citizens are qualified for high value roles in a global market economy. In my opinion, breaking up public school monopolies by facilitating choice is a critical change agent.

Governments must stop trying to protect the special interests of their domestic industries. When the Japanese economy opened up to international competition in the 1990s, Japanese consumers finally got relief. For instance, they stopped paying \$15 for a grapefruit. Some Japanese business people called the changes “price destruction.” Free trade was hard on the owners and employees of Japanese grapefruit providers. But it was very good for Japanese consumers.

American tariffs on steel and soft lumber, introduced in 2002, were certainly popular with domestic steel and lumber companies, but it hurt American consumers. And it hurt American workers that used steel and wood as raw materials.

The cost of protectionism is colossal. American consumers pay \$24 billion annually to protect about 170 thousand textile jobs - or about \$140 thousand per protected job. The costs are \$350 thousand per protected job in machine tool manufacturing.

Remember why Lifesavers moved their manufacturing process from Holland to Canada? Sugar costs in America are artificially high. The U.S. protects its sugar producers at an astronomically high cost to its citizens.....\$600 thousand for each sugar production job protected.

Japan and America aren't alone in protecting special interests at the expense of its people. In 22 well-guarded sectors, the European Union protects 200 thousand jobs at a cost of \$43 billion. That's \$215 thousand per year per worker in protection money.

Globalization will not weaken nations. Individual nations are the locus of political debate and legitimacy. Supranational institutions gain their legitimacy and authority from nations. In a free country with the rule of law, most citizens will want to fully participate in their nations' culture, send their children to local schools and enjoy neighbors who are predominantly fellow citizens. In short, most people will live in their own nation. That will remain true even if all the policy barriers to the movement of goods, services, capital, information and people are eliminated.

It's time to give freedom a chance.

The struggle is not one between rival ideologies. The collectivist, anti-global, protectionist ideology is a proven failure. The struggle is between a world still in the dead hand grip of anti-global policies and the invisible hand of free markets and global competition.

For the benefit of all Americans and the people of the world, lets hope, in our era and beyond, that the winning idea is global freedom.

Thanks.

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