

Does it matter where the factories are?

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Return to industrial production may be the way ahead. But it does not really change the neoliberal approach to business

The crisis that began in 2008 has brought the deindustrialisation of the US and Europe, at the centre of the global economic system, to the forefront of the debate. President Barack Obama has made it a key issue of his re-election campaign, alongside reform of the financial industry and equal rights (1). There is a new word, “insourcing” (2), the opposite of “outsourcing” or sub-contracting. The idea is to return industrial production to national territory.

These countries urgently need to revive their industrial sectors after the massive shift of production to peripheral countries. It could be a way of reducing unemployment and slowing the (relative) decline of the central economies, and also a means of avoiding trade imbalances, particularly important in the sovereign debt crisis, since it is principally budget and trade deficits that international financial institutions (the markets) punish.

Deindustrialisation is a more general and older process than relocation. In the central economies, the arrival of neoliberalism in the 1980s was not a major departure from the trend. In the US, the proportion of GDP generated by manufacturing industry fell from 26% in the 1960s to 19% in 1980s and 11% in 2007. The figures were similar in France, higher in Germany, but in both countries the decline was on the same scale (3). This trend reflects a longterm shift in the structure of consumption, towards services (see [Europe's economic disarmament](#)). But it is true that the relocation of production to other parts of the world is characteristic of neoliberal globalisation.

A decisive factor over these decades was the industrial strategy adopted by big companies that had become multinationals. The situation in the US is the most obvious example of one approach: foreign direct investment (buying up or establishing subsidiaries in other countries). During the 1970s, just before the advent of neoliberalism, direct investment by US non-financial companies in other countries was equivalent to 23% of their net physical investment (construction and material) within the US (see graph, above). Between 1998 and 2007 this rose to 81%, indicating a deliberate effort to produce elsewhere than on national territory. Obama may be planning an assault on the multinationals by ordering them to abandon this strategy.

In the peripheral countries of the global economic system, unit labour costs have been rising rapidly and are approaching those in the US. Obama is aware of this convergence, which he attributes to hourly wage costs rising in China, at the dizzying rate of 13% a year (in constant price terms; based on official statistics for Chinese cities). The revaluation of the Chinese yuan has also been a factor. Between 2005 and 2012, the yuan rose in value against the dollar by more than 30%. Allowing for

inflation, which has been faster in China than in the US, the revaluation has been close to 40%, and this has coincided with a fall in wage costs in the US. Together, these developments have already prompted some companies to repatriate production to the US (to South Carolina, Alabama or Tennessee) (4). The crisis has given momentum to this trend, a sign of the success of the neoliberal strategy of bringing workers in the central countries into competition with those in peripheral countries.

Signs of US revival

The relocation Obama claims to want to encourage is apparently justified in profitability terms. It would require no effort by the multinationals (except to become aware of this reality). And the US government will do its bit by cutting taxes for companies investing on national territory.

In his State of the Union address in January, Obama presented his plan for a US economy “built to last”, and said “the American auto industry is back”. Taking production levels in 2007 as 100, US car production fell to 48 in June 2009. By December 2011, after massive refinancing by the government, it had recovered to 84. The car industry has probably been saved, but there is still a long way to go. Some industries are doing still worse; others, such as electronics, are coping better. Measured from the same base year, US manufacturing output as a whole fell to 80 in June 2009 and recovered to 93 in December 2011. This is an improvement, but not a miracle. The cries of victory that greeted the revival of the US car industry (welcome in an election year) could be premature, or even over-optimistic.

These developments will remind Europeans of the contrasting economic performances of Germany and France. We are told that Germany has shown neoliberal globalisation to be sustainable, in the face of competition from the peripheral economies, and that France is lagging behind. But it is not possible to know how well German industry has performed without knowing the price it has paid. German and French industry parted ways in 2003. Until then, they had followed parallel paths; since, the growth gap has widened. Between 2003 and the beginning of the crisis in 2007, France’s industrial output rose by only 4%, Germany’s by 20%. These figures relate only to industrial growth. In spite of all the media hype, Germany’s economy has not been growing faster than France’s: over the same period, both countries have seen their GDP grow at practically the same pace (see graph, page 10). The experience of Japan, which adopted a strategy a similar to Germany’s, suggests that rapid growth of industrial output (18% between 2003 and 2007) will not always prevent a long period of economic stagnation.

Germany’s working poor

A key mechanism was the pressure on labour costs (wages and social security contributions) in Germany, focused particularly on low-paid workers. The proportion of workers considered to be low-paid in Germany has been rising steadily since the late 1990s, leading to greater segmentation of the labour market (5), and the spectacular rise in the number of independent workers, another form of segmentation and casualisation of labour, is probably due to the same cause. Social security contributions fell sharply just before the crisis. France also saw slower growth of

labour costs, but on a smaller scale: the average real labour cost (6) rose by 3.5% in France, while it fell by 1.5% in Germany between 2003 and 2007.

In Germany, this pressure was combined with widespread subcontracting to foreign companies, many based in central Europe. In France, from the early 1990s, big companies adopted the US approach of foreign direct investment. The end result may seem the same, but the continued success of German industry suggests that it is not: the German approach has kept core industrial activities on national territory. It has been accompanied by trade surplus growth. Since 2003, when the divergence between the two economies became apparent, Germany's trade surplus has risen sharply (reaching 7% of GDP in 2007), while France has moved into trade deficit (2% of GDP in the same year). This change is all the more striking since France's trade surplus during the 1990s was, on average, higher (as a percentage of GDP) than Germany's (1.2% as compared to 0.5%).

The processes of deindustrialisation and reindustrialisation should be seen as part of the neoliberal mechanism. Deindustrialisation (the relocation of production) is the expression of a divergence between the interests of the dominant classes of a country, who benefit from the profits made by multinational corporations, and of the territorial economy of their country. The dominant classes care less about where their income is generated than about how much they make. In this respect, things have apparently been better managed in Germany but, as in the US, workers have paid a considerable price — except for the senior management of companies, whose complicity with business owners is a pillar of neoliberalism.

As long as the general neoliberal framework, with all its elements (7) — the hegemony of the capitalist classes and financial institutions, the complicity of senior management, financialisation and globalisation — remains unchallenged by “financial repression”, of the kind that took place in the US during the postwar period, all attempts to fight the process of deindustrialisation, no matter how successful, will continue to be retrograde. They undermine what remains of the social gains made in the preceding decades, without making any clear contribution to the re-establishment of growth and the rebuilding of employment.