THE CHANGE CHALLENGE........*A Newsletter About Change*

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Welcome to the Change Challenge Newsletter

Welcome to the July issue of *The Change Challenge*. Today, there is a longing for a return to the golden days of U.S. manufacturing and middle-class prosperity that followed World War II. Manufacturing will always be a major part of the U.S. economy, but its future will be very different from its past. That's the subject of this month's feature article titled "***A Manufacturing Renaissance?***"

This month's *Results Through Relationships* article titled "***The World is Shrinking"*** claims the world is smaller today economically and physically than ever before. How can you use the gigantic re-allocation of resources that's happening in a shrinking world to expand your success? This month's *Personal Change* article titled "***Changing Rules"*** suggests that some people may be spending too much time "doing" their job rather than investing in the knowledge and relationships that will be required for future success. Are you one of them?

Your feedback and recommendations to improve this e-letter are always appreciated via email or through *The Change Blog* at www.dickstieglitz.com.

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This Month's Articles

Buying or selling a business can be a lucrative but risky

Feature Article

A MANUFACTURING RENAISSANCE?

Will manufacturing continue to be a major part of the U.S. economy? Absolutely, but its future will be very different from its past. Today, there is a longing, even among people who are too young to remember, for a return to the golden days of U.S. manufacturing and middle-class prosperity that followed World War II. Most people don't recognize the uniqueness of that era. In 1946, the U.S. accounted for half of all global manufacturing. Why? Because the American industrial machine was in overdrive and other industrial countries like Germany and Japan were in ruins. 65 years later, those countries and China are leaders, while U.S. manufacturing has been flat and the salaries and benefits of its factory workers have skyrocketed.

Pay Differentials. Companies can build factories anywhere in the world, so the best hope for U.S. workers is to be so skilled and so productive that they justify the pay differential they earn versus workers in Mexico, China and Vietnam. They must produce complex products that can't be manufactured in low-wage countries and out-hustle foreign competitors with innovation. China's pay advantage over the U.S. is eroding because their wages climb almost 20% a year, while U.S. workers are increasingly willing to accept non-union wages and benefits. After adjusting wages for superior U.S. productivity, China's average wage is still roughly half the wages of workers in Mississippi, South Carolina, and other right-to-work states.

Off-Shoring Loses Its Luster. Moving manufacturing to China isn't the no-brainer it once was. Multinational companies like GE, Caterpillar and GM will continue to build factories around the world - not to ship back to the U.S., but because that's where demand is growing. On the other hand, companies are likely to build factories on American soil when the goods will be sold in the U.S., often wooed by incentives from state governments. Today, efficiency is increasing steadily which makes labor a smaller factor in overall costs. Furthermore, long supply chains are becoming more risky. When oil prices rise, transportation costs increase; and flu epidemics, tsunamis and other disasters also can disrupt supply chains. Companies no longer automatically manufacture in the country with the lowest labor costs.

Not a Panacea. A manufacturing renaissance would simulate the U.S. economy, but don't look for it to be a panacea for unemployment. The idea that manufacturing is the core of the U.S. economy is a relic from the past. Before World War II, agriculture seemed to be the economic mainstay, but then agricultural employment fell dramatically and workers moved to other fields. Similarly, manufacturing workers must switch to jobs in growth sectors. Like agriculture, manufacturing companies produce more with less people these days. Manufacturing has been steady at 15% of GDP despite a 40% decline in workers from the 1979 peak of 20 million. That's too bad since factory jobs pay better than other jobs that people without college degrees can get. However, even if a manufacturing renaissance doesn't help unemployment much, it will bolster the economy by increasing exports, shrinking our $600 billion annual trade deficit, and helping to pay our debts to the world.

Export-Led Recovery. The U.S. economy could grow quickly by increasing exports, which are just 12% of the U.S. GDP but 25% of global GDP. The idea that exports could lead the recovery strikes some people as a pipedream. They pessimistically point to a decline in manufacturing, but don't realize the U.S. still ranks third in exports behind China and Germany. Historically, U.S. exports have grown because companies export new products, rather than by regaining market share for old products. Census data show only 1% of U.S. companies are exporters - 99% focus entirely on domestic sales. While U.S. consumers struggle with high unemployment and debt, demand in many other countries is booming, and that demand can translate into job growth. To boost exports, business-friendly policies are required in (1) free-trade, (2) energy, (3) labor relations, and (4) assistance for companies that export. Let's take a closer look at these areas to see what Obama administration and Congress could do to stimulate for export and job growth - and reduce our budget deficit and national debt at the same time!

Free Trade. President Obama says he wants to expand exports, but several of his decisions actually have inhibited free trade. To appease union supporters, Obama imposed a 35% tariff on tires from China, supported *Buy-American* provisions in the Stimulus Act, and was silent when Congress shut the border to Mexican trucks. The president also has done little to push Congress to pass agreements with Panama, Colombia and South Korea that would expand trade. Historically, American presidents from both parties have championed free trade because it creates jobs, lifts millions out of poverty, and reduces consumer prices. Globalization has made economies more interdependent than ever, with the supply chain for a car or plane made in the U.S. often using components manufactured in other countries. So Congress and the Obama administration must end protectionist policies and promote growth through free trade.

Energy Policies. Congress has been looking through a rearview mirror in its feeble attempts to revive the economy. For example, they fight any bill that would increase electricity or gas prices - even if such actions would create many 21st century jobs by making clean energy competitive with coal and encouraging the use of hybrid vehicles. In a single stroke, raising the federal gasoline tax would narrow the deficit, encourage conservation, reduce oil imports, reduce carbon emissions, and make renewable energy more competitive. Alternative energy innovations will create millions of jobs in the next 10 years and, if Congress doesn't do something soon, most of them will be in Germany and China. The key to the new-job treasure chest is for the U.S. to reduce imports of oil and cars, and instead drill our own oil and incentivize domestic production of hybrid cars and other exportable products.

Labor Relations. At the 2011 Paris Air Show, Airbus booked $72 billion in A-380 orders (about 50,000 jobs), while Boeing got only $22 billion, in part because of uncertain deliveries for its new *Dreamliner-787.* South Carolina, one of 22 right-to-work states, offered Boeing $200 million in tax breaks to locate a plant in Charleston to assemble the *Dreamliner*s. Boeing, one of the top U.S. exporters, accepted the offer and built a billion dollar, 3800-employee facility that's scheduled to open this month. However, the National Labor Relations Board (NLRB), in response to a filing by the International Association of Machinists, complained that Boeing violated federal laws when senior executives connected the South Carolina move to the machinist union's 2008 strikes. In its defense, Boeing said several factors lead to building the plant in South Carolina, including low labor costs and an international port. Boeing also said it added over 2000 jobs in its Seattle plant since 2009. If federal courts endorse the NLRB's ruling, the new factory in South Carolina (a state with 10% unemployment) will shut down and *Dreamliner* assembly could move to China or another country that has favorable labor policies and costs.

Assistance for Companies That Export. Companies that export often grow rapidly and generate new jobs. Therefore, the government should encourage American companies to export and help them overcome the barriers of entering global markets. One form of support is consular services to guide companies through the red tape of foreign markets. Another support is providing trade financing, which has all but dried up from private sources since the recession. Approving trade agreements Panama, Columbia and South Korea also would make it easier to export by providing access to those markets. Obama talks about expanding exports - it's time to do things that make it happen!

Conclusion. A manufacturing renaissance coupled with increased exports would be a big step toward solving several daunting challenges in the U.S.: stubbornly high unemployment, providing opportunity for everyone in a class-stratified economy, deteriorating infrastructure, and a soaring national debt. The government policies necessary to stimulate manufacturing and exports require almost no budget expenditures. In fact, the U.S. has abundant resources to meet these challenges:

- Plentiful natural resources like oil and gas - if we'd only use them;
- A relatively young population - if we could only put them to work;
- Best universities in the world - if citizens had access to them; and
- A history of business innovation - if we would unleash it.

Unfortunately, the American middle class will never again be several times more prosperous than the rest of the world. In addition, the U.S. won't dominate manufacturing and technological discovery like it has in the past. That's the nature of a global economy. It already may be too late to catch the Germans and Chinese in manufacturing and exports, but if Congress and the president would work together to address the challenges, at least the U.S. could stay in the game in third place.

Results Through Relationships

THE WORLD IS SHRIKING

Transportation advances have been shrinking the globe for centuries. The steam engine replaced the sail and shrank the oceans. Locomotives replaced wagon trains and reduced travel time between the Atlantic and Pacific coasts. Today, UPS and FedEX move things in jets planes from your workplace to virtually any place on earth with guaranteed next-day delivery! Information transfer is instantaneous over the Internet. We don't have the transporter technology that Captain Kirk and Mr. Spock used in *Star Trek,* but even that is close to reality.

The world also is small for economic purposes. Global trade is 25% of world's economic output today, compared with less than 10% at the start of the industrial age. The rise of China, India, Brazil, members of the former Soviet-bloc, and smaller countries as trading partners means a majority of the world's people now buy and sell in the global marketplace. Unfortunately, the explosion in trade has widened the economic gap between the *haves* and the *have-nots,* and spawned social unrest. Ironically, the same technologies that shrunk the globe have enabled the unrest to spread and become tools of terrorism (e.g., crashing planes into buildings). In today's small world, we're all connected socially, economically, and ecologically.

Fighting for resources and land might have been acceptable in the industrial age, but today countries are organisms that co-exist in a fragile ecosystem. Whether they are big or small, countries' economic healths are coupled. When one is injured, everyone suffers. Cultural infections like terrorism, piracy and aggression by rogue nations damage the ecosystem so, to preserve their collective health, countries are banding together to eradicate the diseases

Governments, even the powerful U.S., are realizing that war is not effective as an instrument of national policy because of its devastating impact on the economy. Since war and threats of war are intolerable, governments will behave more like businesses, and resolve differences on the basis of mutual economic benefit. Furthermore, the tools of conventional warfare (e.g., tanks, bombers, and warships) have become unaffordable and marginally useful. Markets will force the companies that manufacture them to shift their business base.

At the same time, tools and technologies for intelligence gathering and law enforcement are rising in value; not because of military uses, but because of their economic importance. Electronic warfare is replacing bullets and bombs as the weapon of international aggression. For example, the Chinese military may be small relative to the U.S., but they are among the world leaders in such tools. How will such a gigantic re-allocation of resources affect your economic future? How can you use the shrinking world to expand your success?

Personal Change

CHANGING RULES

I interviewed a highly qualified candidate for a senior position. He had a track record of setting and achieving goals, and his credentials were impeccable: Dean's List at a top university, Masters Degree earned at night, and success at other companies. He assumed that his resume put him on the inside track for management, and he felt he was ready. What he didn't understand was that credentials are the price-of-entry in the global economy, not a guarantee of success. He had not invested in building relationships and did little to update his knowledge.

He was in the job market because his prior company had been acquired by a larger firm, and he was forced to compete for his old job against people who were willing to do the job for a lower salary. That wasn't a contest his ego would let him fight. Even with an impressive resume, he lost his job to someone younger who seemed less qualified on paper. It was a mystery to him how that happened, and he didn't understand even when I explained it. We didn't hire him because he lacked the industry relationships and current knowledge that would justify his high salary.

Relative to your current position, ask yourself: "*Would my boss hire me today if I interviewed for my job? Do I provide my organization with unique knowledge and essential relationships? Do I produce measurable results?"* If the answer to any of these questions is *NO*, you may be spending too much time "doing" your job and not investing enough time to expand your knowledge and nurture new relationships. On the other hand, maybe you should begin looking for a new organization if your position "*still has a year or so left*." A dying job will sap your energy and leave you far behind the market. We live in a time when knowledge and relationships are more valuable than seniority or advanced degrees. For some, that's great news. For others, it is an unwelcome change. Are you adapting to the changing rules of the global economy?

Friends & Colleagues,

If you're wondering how you and your organization can succeed in today's shrinking world, contact me to discuss the possibilities. If you found this e-letter to be useful and interesing, forward it to a friend. If not, please let me know why at dick@dragonsofchange.com.

Until Next Month,

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