

June 22, 2009

## Of popping bubbles and economic growth

In the late 1990s I recall renting a VHS tape (remember those?) of a recently aired PBS series called "Triumph of the Nerds." It detailed the rise of the computer industry, from the garages of San Jose to the boardrooms of corporate America.

It's an incredible story, really. The PC business started from nothing and transformed into a *multibillion-dollar* industry within a decade and a half. The rapid rise happened not just because the technology helped people and businesses become more efficient (though some early adopters debated that). It also did something that at that time no business in the world had ever done: As time went on, products became better *and* cheaper. This must have raised a lot of eyebrows in a business community browbeaten by years of high inflation and interest rates.

More than that, you didn't need to build a production line to make money. Plenty of manufacturing stood behind the PC revolution; making silicon-based computer circuitry is what gave Silicon Valley its name, after all. But real money could also be made by simply telling that circuitry what to do. If you had the wherewithal to program, you didn't need a massive warehouse, fixtures, stockpiles of raw materials, or anything else. This all propelled us to the seemingly "new economy" that, after several years of irrational investment, didn't seem so hot. Economic fundamentals hadn't changed after all.

So the dot-com bubble popped, and Americans still wanted to make money. But they didn't want all that warehouse space, fixtures, inventory, and other stuff that made the "old school" manufacturing business so hard. So what did we do? Those who grew up as math whiz-kids (who in previous times might have pursued a manufacturing engineering degree) turned their brains toward the markets, to make money from money. They took advantage of low interest rates, an irrational housing market, and easy credit. And though it required some hefty market knowledge and math smarts, among other things, there was no need for huge machines, and no need to get your hands dirty.

We all now know how that turned out.

Now, after all this, it seems the U.S. public is turning their collective gaze toward manufacturing, and my, how perceptions change. According to a survey released earlier this month by [Deloitte LLP](#) and [The Manufacturing Institute](#), 71 percent of those polled view manufacturing as a national priority, and 81 percent said America's manufacturing base is important to their standard of living.

Unfortunately, old perceptions still hang on: Only 17 percent said their school system in the community encourages students to pursue a manufacturing career; only 30 percent would encourage their children to pursue a manufacturing career; and only 33 percent see such jobs as "clean and safe." The last misconception may be tough to overcome because, let's be honest, for much of the early part of the last century, manufacturing in certain areas wasn't safe at all. And the challenge of manufacturing education persists because, among other things, it's costly. In decades past, school administrators read about manufacturing layoffs and then wondered why they should spend money for this welding power source or that lathe in the metal shop, especially when a bank of new (and cheaper) computers could be used across various curricula.

The trends over the past two decades may change attitudes. Perhaps we're finding that the country can't get by with just making money from money, or building software or Web sites that serve little purpose. We know manufacturing works as an economic engine. And thanks to lean manufacturing, computing technology, and automation, that engine has been given some serious tune-ups since its postwar Golden Age. Today it may be ready to drive us out of our economic doldrums and return us to prosperity. It won't be quick, easy, or even a sure thing. All the government intervention, for instance, carries with it the risk of irrational investment. But over the long run, manufacturing will make things of real value and perhaps lead not to an economic bubble, but to a real, sustainable recovery.

I hope it does, because, to be frank, I'm really sick of seeing bubbles pop.

Posted At : 2:37 PM. | Posted By : Tim Heston