

**OP-ED ARTICLE FOR TIMES RECORD
BY RUSTY MYERS 2/2/2005**

*Rusty Myers is assistant executive director and director of economic development for Western Arkansas Planning and Development District
email address: rmyers@wapdd.org*

We hear a lot about foreign competition and America's loss of manufacturing jobs. What does this mean for the Fort Smith area, should we be concerned, and what challenges face this area?

A recent Times Record section featured interesting and entertaining articles from Fort Smith newspapers of 1904. Referring to a survey of manufacturers in the city at the time, one of the republished reports stated, "None of them have reported less business than in former years and all say that as their business gets older their trade increases and that Fort Smith in the near future, will be the manufacturing city of the Southwest. All of the manufacturers think they did the wise thing in starting at Fort Smith."

Today, one hundred years later, Fort Smith continues to be an extraordinary place for manufacturing businesses. And Fort Smith has become if not "the manufacturing city of the Southwest" certainly one with an outsized intensity of manufacturing activity, producing over \$5 billion of goods in 1997, according to the federal government's most recent nationwide census of business. This amounts to \$25,000 of goods produced per resident in the Fort Smith metro area, which is almost twice the nation-wide amount per capita and considerably more than any other metro area in this state and region.

Making it an exceptional manufacturing city are the 300 or so manufacturing establishments and their just over 25,000 employees located in the Fort Smith metropolitan area of Sebastian, Crawford and Sequoyah counties, producing a wide variety of goods which are shipped all over the country and world. Accounting for one-fourth of the area's entire labor force of almost 100,000, manufacturing workers annually earn wages in excess of \$800 million. These earnings represent about 30 percent of all area enterprises' payrolls.

The impact of these payroll dollars on the local economy as they are spent and re-spent locally for goods and services, commonly referred to as the ripple effect, is an estimated \$2.2 billion annually. To put the impact in perspective, for the Fort Smith area it is estimated that each manufacturing job supports the presence of at least one other job outside of manufacturing.

Indeed, Fort Smith is a manufacturing city and manufacturing is the economic engine largely driving its economy. However, circumstances have become such that this exemplary status is also now its vulnerability.

"Manufacturing In America," a recently published report by the U.S. Department of Commerce, cites the manufacturing sector's rapidly rising productivity as its greatest strength and the reason it is a major contributor to the growth of the U.S. That same productivity growth, the report points out, has also, however, been largely responsible for the gradual decline in employment in manufacturing.

From 1977 to 2002, productivity in the overall economy increased 53 percent, while manufacturing sector productivity rose 109 percent. This means labor productivity in manufacturing doubled in the last 25 years. An increase in productivity essentially means

more goods are produced per man-hour, allowing greater output with fewer workers. How did this happen? Largely through technological innovations and improved management techniques, which in industry jargon is *advanced manufacturing*. More significant than the achievements themselves, these productivity increases have brought about tremendous gains in the country's standard of living. But there are consequences.

Because productivity gains in manufacturing have outstripped the growth in demand for manufactured goods, manufacturing employment nationally has been falling for the past two and a half decades. Manufacturing employment for the U.S. was significantly lower in 2003 than in 1980, both in terms of numbers and proportion of total work force, falling from 22 percent of all non-farm jobs to 11 percent. Though the state and the Fort Smith area did not begin to experience declines in the numbers of manufacturing jobs until the early nineties, manufacturing employment as a percentage has been declining since 1980, from 28 percent to 18 percent for the state and from 34 percent to 25 percent for the Fort Smith metro area.

Another important trend for manufacturers in the United States is they no longer have a lock on advanced, state-of-the-art manufacturing facilities capable of producing high-quality, low-cost goods. American manufacturers face competition not only from foreign manufacturers of low-cost commodity products, but also from those that manufacturer sophisticated products with sophisticated production tools and the know-how to use them.

Thus, U.S manufacturers will face constant pressure to lower prices. With the reduction of barriers in international trade, makers and distributors of manufactured goods are now more free than ever to make, assemble, buy and sell products and their components wherever in the world it is most economical to do so. This fact, combined with the increased productivity resulting from advances in manufacturing techniques and the emergence of new and powerful competitors like China, has effectively opened manufacturers throughout the world, including those in the U.S., to new sources of low-cost labor and manufacturing capacity. In a global economy in which both goods and capital are mobile, but labor is not, manufacturers' tapping of lower-cost labor by importing it in the form of lower-cost parts, components, and – increasingly – finished goods is simply a function of trying to stay competitive in a global economy.

A further transition in the Fort Smith area is the kinds of goods produced by manufacturers. In the early eighties, poultry processors, such as Tyson, Simmons and OK, began to feverishly establish and expand grow-out and processing operations in Arkansas and Oklahoma. Labor-intensive because of the nature of the work, the plants employ thousands of workers, most in lower-skill, low to moderate-wage jobs. As it was for manufacturers of hard goods like appliances and air conditioners, poultry plants' productivity per man-hour has steadily increased and product output has approached market demand, at least domestically. Over the last ten years this has resulted in a leveling off in job additions at chicken plants. What this means for the Fort Smith area is in terms of manufacturing employment it can't continue to count on the poultry industry to pick up the slack for the area's decline in durable goods industry jobs that began two decades ago and still continues.

For the more recent time frame of 1990 to 2003, the Fort Smith area added 19,300 net new jobs, averaging about 1,500 a year, although there has been a leveling off over the last couple of years due to the recession. Of all these new jobs created over the past

thirteen years only 100 were manufacturing, with durable goods manufacturers actually losing 400 jobs, countered by a gain of 500 new jobs in food processing plants.

While manufacturing employment was falling nationwide, jobs in what the U. S. Bureau of Labor Statistics classifies as the “service providing” sector – which includes retail & wholesale trade, utilities, financial services, information, business & professional services, education, health care, hospitality, trucking & transportation, government – expanded at a brisk pace, increasing for the U.S. from 72 percent of all non-farm jobs in 1980 to 83 percent by 2003. Following the national trend, the state’s service sector employment increased over this same period from 66 percent to 77 percent and the Fort Smith metro area’s from 61 percent to 69 percent.

Perhaps most astounding, of the Fort Smith area’s total number of new jobs created since 1990, ninety percent – 17,300 out of 19,300 – were in the service providing sector. Furthermore, 8 out of 10 can be credited to six specific industry groups: health care services, education, retail trade, trucking, employment services and construction. All except construction, which is considered “goods producing,” are service providing industries.

Health care services alone in the Fort Smith area accounted for 20 percent – one out of five – of all new jobs over the last thirteen years. Since 1990, health care establishments have added an average of 300 new jobs annually. Increased demand for health care services and its associated occupations is projected to continue in this country for many years to come.

Though the new service sector jobs are welcome additions to Fort Smith’s economy, particularly in light of the leveling-off of manufacturing hires, the jobs are generally steps below factory jobs in terms of wage level. Typical service sector jobs in Fort Smith simply do not pay as well as factory jobs: \$26,700 vs. \$33,000. Consequently, the area’s move from goods producing to service providing employment could, over time, dampen down overall wage levels.

Compared to other areas of the country, Fort Smith is light on service providing businesses paying high wages and employing workers with advanced education and specialized skills. The area’s mix of service providing jobs is more weighted with occupations requiring only a high school education and on-the-job training. The counterpart to this is Fort Smith lacks in the expansion of jobs in vibrant and higher paying industry sectors, like finance, information and technology services, which have proven to be a source of strength in many areas of the country. A correlative to this situation – some would say, the cause – is the area’s comparative lack of highly skilled and college educated persons.

Aside from the pay issue, there is a disquieting side to Fort Smith’s comfortably relying on service sector businesses for jobs. As mentioned, a sizeable portion of the area’s service sector employment is dependent upon the presence of manufacturing. As manufacturing jobs go away – which they are – so do the associated payroll dollars spent at area stores, at the local hospitals and doctors’ offices, for haircuts and dry-cleaning, for housing, causing declines in sales tax receipts which support local government services and the need for school teachers as people leave the area to seek jobs elsewhere, and.....well, you get the picture. Few sectors of this area’s economy are immune from the effects of employment cut-backs by manufacturers.

By all accounts, continued declines can be expected for manufacturing employment in the U.S. Though manufacturing output – that’s production – in the U.S. took a downturn in 2000 after almost two decades of fairly steady increases, its future direction overall is generally expected to be positive. But this outlook varies greatly from sector to sector. For example, major household appliances manufacturers are under mounting competitive pressures to move production out of the country to cheaper labor markets, and Whirlpool, with a large plant in Fort Smith, is reportedly planning to do just that.

Considering what’s facing the Fort Smith area, what’s the answer – what should the area do to improve its economic prospects? Attempt to retain what it can of the manufacturing sector? Hope to land a Toyota plant? Attract and champion the expansion of service sector businesses not dependent on local manufacturing employment, companies like Beverly Enterprises, ERC Properties, ABF, USA Truck? Ride the wave of the rapidly growing health care industry? Improve education levels and target workforce training for the good jobs in demand? Somehow take advantage of northwest Arkansas’ growing prosperity? Improve the area’s ‘quality of place’ as suggested by the Fort Smith Chamber’s TIP Strategies consultant Jon Roberts (see below)? All of the above?

While our comfort at this time is not high on knowing the right questions and answers, there are some identifiable issues. First, the foremost challenge facing the area in dealing with the economic transition underway is the realization that not only are things not going to stay the same, they already aren’t the same. Changes are afoot, and for those communities, businesses, and individuals who don’t respond appropriately or at all, it won’t be pretty.

Second, don’t expect the government to fix the situation – they didn’t cause it in the first place. Natural forces of economics and the now well-established course of globalized business dealings are too powerful. Besides, when government meddles it typically makes a mess. If there’s a meaningful solution – and it won’t be merely one solution – it will and should come from local efforts – down to individual businesses, public and private organizations, officials and citizens. Yes, large bits of personal initiative and responsibility, and teamwork, are required.

A notable effort underway is the Fort Smith Regional Chamber of Commerce’s recent engagement of TIP Strategies, an Austin-based consulting firm, to help develop an economic development strategy. Recently in town and speaking to various groups, including the Leadership Fort Smith Alumni Association where I heard him, TIP Strategies’ lead consultant Jon Roberts shunned the traditional notion of pursuing manufacturing jobs but, instead, advocates creating a “quality of place” attractive to the well-educated, 25 to 35 age group, the “creative class” sought by wealth-generating businesses. This group, as I understood Roberts to say, is essential to an area’s economic vitality.

To accomplish this, Roberts emphasizes the importance of a community having the appropriate cultural and entertainment amenities, neighborhoods, shopping and other qualities which attract and hold this young group. Sounding like a build-it-and-they-will-come sort of approach, his comments generated a lot of questions from the audience, as no doubt they are wherever he appears. What Roberts has to say is underscored by what his firm’s Web site says about its economic development services, “It is no longer feasible to conduct business as usual. We offer a fresh approach.”

For a town steeped in manufacturing for over 100 years, Roberts' suggestions are going to be tough for some to swallow. If the chamber's strategy development process is truly an open and honest one – and it looks like it's headed that way if Roberts' remarks are any indication – the chamber should anticipate some tepid participation and even opposition from among the area's business leadership and its own membership.

This comment is not meant critically but stems from my observations over the years of an under-lying reality. Much of the area's business interests are intricately and tightly bound to the fate of manufacturing in the Fort Smith area. Because of this, strategies to pursue non-manufacturing development activities, or even suggestions manufacturing might be fading and the local economy flagging, are not well received or supported by some people.

In my opinion, the hardest challenges facing this area as it attempts to deal with the pivotal, economic transitions occurring are a setting-aside of traditional mind-sets and a realization that changes in investment choices are necessary. The sooner we meet these challenges, the better.

Roberts has his work cut out for him – and so do we.