REMAPPING DEBATE
Asking "Why" and "Why Not"

Looking beneath a consulting firm's facade of objectivity

Original Reporting | By Mike Alberti | Corporate influence, Globalization, Labor

Oct. 25, 2011 — In August, when Boston Consulting Group, one of the world's leading business consulting firms, released a relatively optimistic report on the future of manufacturing in America, that good news received extensive coverage, including a front-page article in the Financial Times. Implicit in almost all of the coverage was the premise that the report represented a thorough, objective, and neutral assessment of the relevant facts.

DECODING THE REPORT

Annotated excerpts to make the values and agenda of the report more visible.

SEE APPENDIX FOR ANNOTATED EXCERPTS FROM THE REPORT

But according to experts in manufacturing and industrial policy, as well as to experts in corporate social responsibility, a close reading of the report — Made in America, Again: Why Manufacturing Will Return to the U.S. — reveals a different picture: that of a company with its own distinct and one-dimensional ideological framework, promoting a particular set of public policy choices.

The advocacy nature of the report perhaps becomes most clear in the report's final sentence. There, BCG states that the domestic manufacturing renaissance supposedly on the horizon depends on the U.S. providing what the company calls "a favorable investment climate and flexible labor force." Translated, some advocates said, the conclusion constitutes a not-very-subtle call for the U.S. government to continue to give business interests free rein.

The cover of the report features an American flag presented as the foundation upon which workers are busily employed, but the vision of large consulting firms has been, and continues to be, one that favors the unfettered movement of capital across national lines. Indeed, critics point out, the report is entirely indifferent as to where jobs are located, explicitly making a judgment that cost — not national allegiance or any other factor — is the only value companies should consider when making decisions about where to locate and invest.

Indeed, the absence of consideration of any values besides economic cost is one of the report's most salient features. (See "Decoding the Report," an annotated selection of excerpts from the report.) Remapping Debate's requests to interview representatives of BCG were declined.

A narrow framing

Several experts asked by Remapping Debate to review the report criticized what they described as its narrow focus. They noted that reports like this one, not contracted for by a specific business, were not even constrained by the duty that the consulting firm might be said to owe the client, and urged large consulting firms to expand their analyses to include a variety of social costs and benefits

While some experts in corporate social responsibility said that no one should expect that BCG or other consultants would operate from any premise other than the perceived need to maximize profit, others said that consulting firms should be held to even higher expectations to address social costs than other firms.

"One of the adages in ethics generally is that those that have greater power have greater responsibility," said Gene Laczniak, a professor of business at Marquette University who specializes in the social implications of business decisions. "So, that being the case, it's clear that consulting companies have a special expertise and a special knowledge, and they should be setting the tone in terms of considering the social and environmental consequences of the advice they give."

Big consulting firms: long the champions of globalization

Traditionally, private consulting firms like BCG and McKinsey have been champions of the free movement of capital, encouraging companies to relocate offshore in low-cost countries with loose regulatory standards if it would boost the company's bottom line. That movement of capital and labor is often referred to as "offshoring."

"The consulting industry has had a huge impact on offshoring in the past," said Ron Hira, an associate professor of public policy at the Rochester Institute of Technology. Hira said the role of consulting firms has long been to identify the easiest ways for firms to profit, and, in the context of globalization, that has meant being at the forefront of the drive to offshore production to low-cost countries, even at the expense of social, environmental, or national interests.

> "Free market advocates like BCG have no sense of national interest. They're in it for the profit." — Bob Baugh, executive director, AFL-CIO Industrial Union Council

That assessment was echoed by Judith Stein, a professor of history at City College and the Graduate Center of the City University of New York, and author of *Pivotal Decade: How the United States Traded Factories for Finance in the Seventies*. Consulting firms, she said, are "the voice of multinational capital, the think tank of multinational corporations."

Indeed, Remapping Debate found several BCG reports written within the last decade that advocate for offshoring to low-cost countries. A 2004 report called "Capturing Global Advantage: How Leading Industrial Companies Are Transforming Their Industries by Sourcing and Selling in China, India, and

Other Low-Cost Countries," for example, concluded by saying, "Companies that continue to hesitate [to offshore] do so at their peril. Globalizing your company's cost structure and business model, with China and India as first-pass options, is rapidly becoming not merely a strategic alternative but a competitive imperative."

"These guys have been cheerleaders for this stuff all along," said Bob Baugh, the executive director of the AFL-CIO Industrial Union Council. "They led the charge…free market advocates like BCG have no sense of national interest. They're in it for the profit."

Different forecast, same premises

In "Made in America, Again," BCG appears at first blush to have changed its tune, projecting that the United States is poised to enjoy a "manufacturing renaissance" and advising companies that producing in China should "no longer be the default option."

Remapping Debate spoke with several manufacturing and corporate responsibility experts who had read the report. Without exception, they said that while the advice had changed, the underlying premise — that companies should move to wherever costs are lowest — had not.

> "They're not saying that companies should locate in the U.S., necessarily. They're telling companies to go wherever labor costs are low." — Mark Price, Keystone Research Center

"It's essentially the same message," said Scott Paul, executive director of the American Alliance for Manufacturing, a manufacturing policy think tank that receives funding from both the Steelworkers union and steel companies. "They're saying, 'Do what's best for your bottom line.'"

"With its seemingly limitless supply of low-cost labor and an enormous, rapidly developing domestic market, an artificially low currency, and significant government incentives to attract foreign investment, China was the clear choice" for companies considering where to build manufacturing jobs, the report says.

"Now, however," the report continues, "a combination of economic forces is fast eroding China's cost advantage as an export platform for the North American market. Meanwhile, the U.S., with an increasingly flexible workforce and a resilient corporate sector, is becoming more attractive as a place to manufacturing many goods consumed on this continent."

The report singles out the Southern states — where union membership and labor costs are low and where environmental and safety regulations are not as strict as in Northern and Midwestern states — as being the domestic destinations that firms should look to when considering re-shoring production.

Mark Price, a labor economist at the Keystone Research Center, a think tank in Harrisburg, Pa., that focuses on manufacturing policy, said that it was clear from that language that BCG was continuing

to advocate that firms shift their resources based on a simple cost-benefit analysis concerning labor costs and regulations.

Indeed, the report does not predict that all companies that have moved production to China will re-shore, instead advising that some companies consider moving to even lower-cost countries — such as Indonesia, Thailand, or Mexico — that have a history of environmental and labor abuses.

"They're not saying that companies should locate in the U.S., necessarily," Price said. "They're telling companies to go wherever labor costs are low."

Selling the virtues of "labor market flexibility"

According to the report, among the primary advantages of producing in the Southern states — particularly Alabama, South Carolina, and Tennessee — are the high degree of "labor market flexibility" in those states and "minimal wage growth." (See an exhibit to the report, "Economics will drive reinvestment in the U.S.," below).

BCG: "Economics will drive investment in the U.S."

Imagine a company...	...with the following choices of location			2000	2015E
• U.S.-based auto parts supplier • Most customers are U.S. OEMs that manufacture in the U.S.	U.S., selected southern states	• Flexible unions/workforce • Minimal wage growth • High worker productivity	Wage rate ($/hour)	15.81	24.81
			Productivity (%)	100	100
			Labor cost/part ($)	2.11	3.31
• Parts require eight minutes of labor, on average, in the U.S. • Labor represents one-quarter of the total cost of the part	China, Yangtze River Delta	• Scarce labor • Rapidly rising wages • Low productivity relative to the U.S.	Wage rate ($/hour)	0.72	6.31
			Productivity (%)[1]	13	42
			Labor cost/part ($)	0.74	2.00
			Labor cost savings (%)	**65**	**39**
			Total cost savings before transportation, duties, and other costs (%)	**16**	**10**

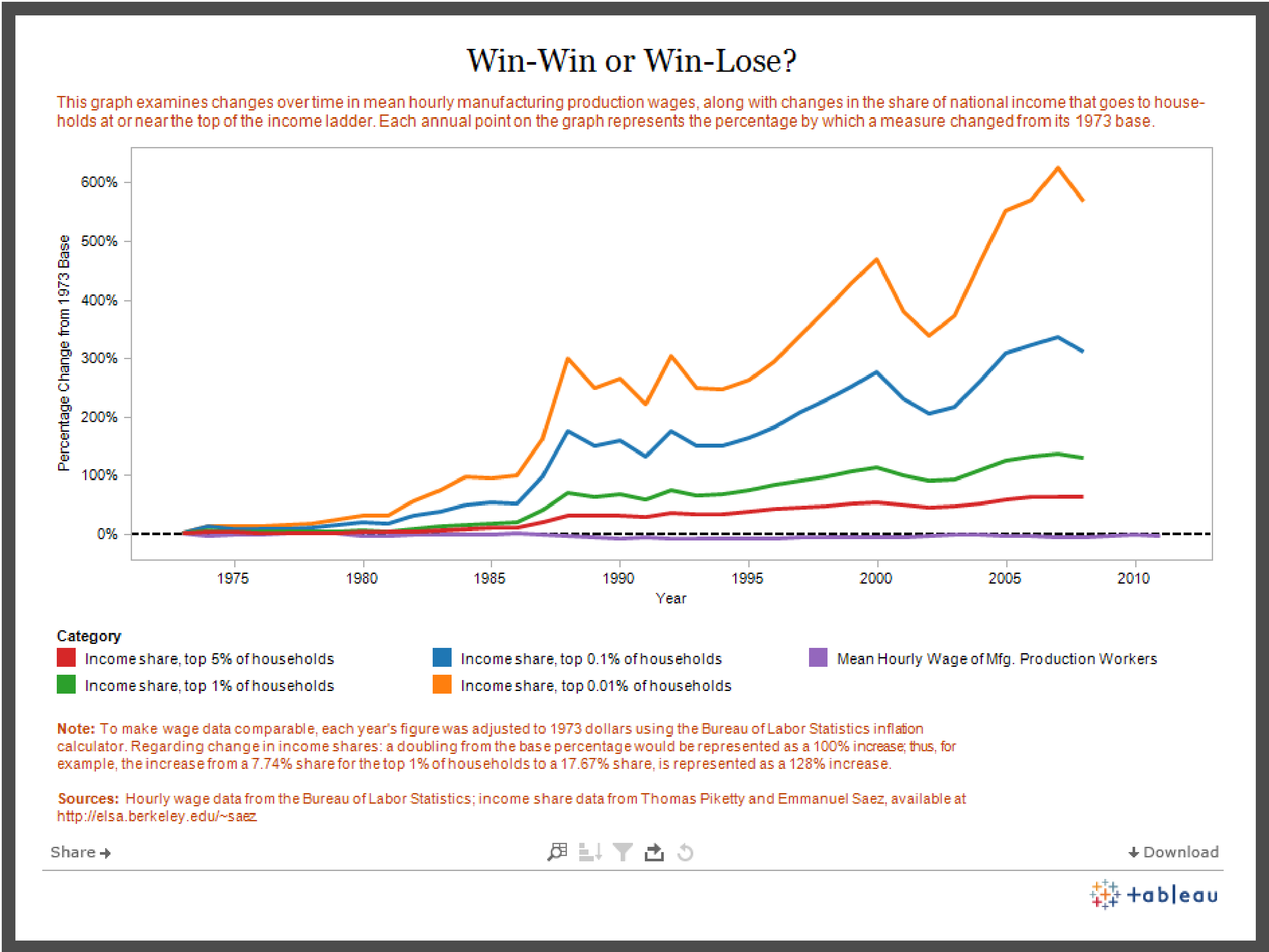
Sources: Economist Intelligence Unit; U.S. Bureau of Labor Statistics; BCG analysis.
[1]Average productivity difference between the U.S. and China's Yangtze River Delta. Productivity in the Yangtze River Delta region is assumed to grow at a CAGR of ~7 percent over a 2009 baseline, slightly slower than overall Chinese manufacturing productivity (~8.5%) as other regions adopt more advanced manufacturing practices.

Exhibit 3 of the report, reproduced with permission of BCG, presents limited choices for location in the U.S. and identifies "flexible unions/workforce" and "minimal wage growth" as among the desirable features of those locations.

Price said that the phrase “labor market flexibility” is often understood to mean that workers have little power to control their wages and working conditions. “But it also means, ‘Don’t have a high minimum wage, have rules that restrict the choices workers have regarding unions, don’t have too many safety regulations, and limit the extent that workers have rights in regard to hiring and firing,” he said.

In an earlier version of the report, Mississippi was used as the comparison to China. When Harold Meyerson, a columnist at the Washington Post, pointed out to Harold Sirkin, one of the report’s three authors, that Mississippi ranks near the bottom of most measures of living standards, Sirkin said, “We made a mistake by picking Mississippi.”

In the updated version of the report, issued in August, South Carolina, Alabama, and Tennessee are the only states specifically mentioned (wages in these states are slightly higher and labor regulations marginally more extensive than in Mississippi). The report estimates that those states “will turn out to be among the least expensive production sites in the industrialized world” by 2015.



"You can't help but come away from this report with the idea that the Southern states are the only states where we can compete in manufacturing, because those are states where we have cheap labor and fewer regulations," said Kate Gordon, vice-president for energy policy at the Center for American Progress.

Price also pointed out that the report mentions recently negotiated autoworker contracts as an example of flexibility. Remapping Debate has previously reported on how the two-tier contract agreed to by General Motors and the UAW compares with data going back 50 years on autoworker compensation and how the two-tier system — originally presented as a temporary arrangement — has an impact on the lives of second-tier auto workers.

Price said that now that two-tier agreements "are a feature of the times, a lot of the talk about flexibility has referred to the fact that even in Northern states, unions are willing to make concessions."

Revisionist history

The report contains a short, four-paragraph history of the decline of manufacturing in the United States since the 1950s. It describes a dramatic shift of manufacturing to Asia in the 1970s and 1980s, but then provides an upbeat telling of the changes that followed.

"The U.S. suffered through many painful adjustments to these challenges," the report says. "Unlike most nations, however, it quickly ripped off the Band-Aid and allowed industry to adapt. Factories closed, companies failed, banks wrote off losses, and workers had to learn new skills. But U.S. industry and the economy responded with surprising flexibility and speed to reemerge more competitive and productive than ever."

According to Price, the wording of the report implies that all sectors of the economy — factories, companies, banks, and workers — suffered equally when manufacturing moved offshore. "Workers had to do more than 'learn new skills,'" he said. "Yes, most of the manufacturing workers who lost their jobs got new ones, but they were jobs that paid less. There is a persuasive literature that says that when there is a mass layoff, the cost of dislocation is quite severe. It's even been shown that [going through one] knocks a year off your life."

> "I would think that in this day the first [value to be considered] would be employing Americans. You could argue that every corporation owes its existence to the fact that it is in the United States and that it has been nurtured and should have a responsibility to the American people." — Judith Stein, City College

BCG's narrative is not the whole — or the accurate — story, Stein agreed. "There is still a whole class of workers that is suffering from that period today."

Stein also took issue with another, implicit aspect of the history: the assumption that offshoring has been — and will continue to be — the unavoidable result of the "natural" process of globalization. The report, she said, glosses over policy choices that have been made in the United States and other countries to promote free trade and offshoring.

"I think this report was done for ideological reasons," she added. "The ideology here is that we can all stop worrying, because the market is taking care of it already."

And according to Price, the idea that, due to market forces, the overall economy recovered after a period of adjustment is misleading. "It's true that we've undergone a transformation," he said. "But it's not a rosy one. The real story is less about everyone recovering than it is about certain sectors getting creamed and an overall economy that hasn't performed very well for anyone below the top five percent." (See graph on previous page.)

What about McKinsey? (Part 1 of 2)

Several experts said that McKinsey & Company, described on its website as a "global" management consulting firm that "strive[s] for world-shaping client impact," has been extremely influential in pushing for policies that promoted offshoring. According to Bob Baugh, the executive director of the AFL-CIO Industrial Unions Council, McKinsey created an entire department — the McKinsey Global Institute — in order to sell the benefits of offshoring.

"They had a whole shop where they put out this literature," Baugh said. "This was a very clear example of how the transnational financial community has driven decision-making on offshoring."

In 1994, McKinsey published The Global Capital Market: Supply, Demand, Pricing and Allocation, a paean to the virtues of globalization, one that, like reports that followed, subordinated other values to what the firm saw as the prime virtue: the unencumbered movement of capital.

A global capital market, if nurtured properly, would "create a happy outcome for the world," the report said.

According to McKinsey, that global market would, "impose strict discipline on all participants," requiring governments in the developed world, among other things, to address immediately what it called "unsustainable social obligations."

McKinsey warned governments not to take actions "unattractive to the market." They are not, for example, supposed to "issue excessive debt or over regulate financial systems."

Policy advocacy

Several experts Remapping Debate spoke with said that, although the report held itself out as a neutral and objective analysis, its language often reflects advocacy of particular policies.

The tip-off, for many, is the report's last sentence: "As long as it provides a favorable investment climate and flexible labor force, the U.S. can look forward to a manufacturing renaissance."

Cynthia Williams, a professor at the University of Illinois College of Law, read the sentence's implicit message as saying that the U.S. won't be able to look forward to a manufacturing renaissance if current policies relating to investments and the labor force are changed. She speculated that one BCG concern was that, in reference to potential changes to the tax code, "there may be some tinkering with that that is unfavorable to investors."

What about McKinsey? (Part 2 of 2)

A key feature of the report was the attempt to persuade policymakers that the global capital market is and ought to be beyond their control, and that, rather than trying to make the market adapt, governments need to submit to it.

"It does not matter whether or not a national government or a particular political party likes or dislikes the development of such a powerful global market and the loss of direct control of its domestic financial economy any more than whether or not a national government likes or dislikes nuclear weapons," the report says.

McKinsey's own introduction to the public policy report makes its intentions clear: "[W]e will describe why a national government has no choice but to move forward to embrace the global capital market unless it wants to harm its own citizens, its economy and its own purposes."

This market is given an awesome creation myth: "What has been done cannot be undone without truly destructive consequences. No one designed this global market. It came into being as the result of millions of individual [investor] decisions…despite all of the physical risk and regulatory barriers that originally limited the markets' existence."

To McKinsey, the perfect global capital market would be one in which capital would flow and prices would be set "through the natural self-interest of all participants without regard to national boundaries."

McKinsey said that when a government attempts to shape or control capital flows — what the report calls "distorting" those flows — it "almost always causes problems," and that, "In general using regulation to prevent the spread of financial innovations (e.g., securitization, derivatives), and/or to protect existing institutions, will also hurt the nation's long-term interest."

Others, like Stein, saw the sentence as a warning to policymakers, particularly a warning about not creating union-based or other obstacles to the availability of a pliable work force. In fact, she said, “They seem to stress that throughout.”

Joel Joseph, the chairman and general counsel of the Made in the USA Foundation, a nonprofit that promotes American manufacturing, agreed, adding that the last sentence is aimed not only at policy-makes but directly at unions, as well.

“It’s a warning to unions that they shouldn’t be too aggressive about demanding wage increases, or you’re not going to have any jobs at all,” he said.

A one-dimensional value system

According to Stein, the report reflects a vision of society in which the market is the only value that matters and that there is no need to consider any others.

Rob Scott, an economist at the left-leaning Economic Policy Institute (EPI), agreed that the report venerates the free market and fails to consider any other values besides the ability of companies to move capital as easily as possible between countries.

> “You can’t help but come away from this report with the idea that the Southern states are the only states where we can compete in manufacturing, because those are states where we have cheap labor and fewer regulations,” — Kate Gordon, Center for American Progress

“They’re trying to reinforce the same ideology that has been dominant over the last 30 years and that has channeled all of the increases in productivity into profits instead of into wages,” he said.

Price agreed, adding that there are a host of other values that should have been included in the report as factors that companies would want to consider when making decisions about location.

“They’re not worried about the overall level of economic growth, or the health and sustainability of communities,” he said. “They are worried about the particular, narrow-minded interests of business.”

Remapping Debate sent BCG a follow-up inquiry by email regarding what values the firm thought should inform a report not produced for a client (that is, a report generated on the firm’s own account and for public consumption). The inquiry gave as illustrations of potential considerations “economic, social or environmental factors.”

BCG’s response cited only the values of being “objective and unbiased,” not mentioning any economic, social, or environmental factors. BCG added that it “hoped our reputation speaks for itself.”

Remapping Debate asked McKinsey & Company the same question it had asked BCG. McKinsey declined to respond.

Quoted in Labor Notes, however, Michael Zinser, one of the BCG report's co-authors, appeared to suggest that broader, societal considerations are irrelevant.

"Location is agnostic," he told Labor Notes. "It's a question of what the market will bear."

When asked what values she would have liked to see considered in the report, Stein said, "I would think that in this day the first one would be employing Americans. You could argue that every corporation owes its existence to the fact that it is in the United States and that it has been nurtured and should have a responsibility to the American people."

Kate Gordon of the Center for American Progress said that she would have liked to see environmental concerns weighed in the report. She referred specifically to BCG's suggestion that, as Chinese wages rise and environmental standards are tightened, it was "reasonable" for many companies to "look for sourcing opportunities in other low-cost nations" — particularly Vietnam and Thailand.

"Vietnam and Thailand are where China was twenty years ago," Gordon said.

McKinsey long claimed that offshoring is a "win-win game" (Part 1 of 2)

In the last decade, McKinsey continued to be a cheerleader for globalization. According to Ron Hira, of the Rochester Institute for Technology, one report was especially influential. Titled Offshoring: Is It a Win-Win Game?, the report was released in August of 2003 and, throughout the next several years, was widely cited by policymakers and the press as evidence that offshoring was beneficial to the American economy.

"The McKinsey report had a huge impact," Hira said. "It was immediately picked up by the political punditry and the press, and from then on it was just reported as fact that Americans would be winning from offshoring."

The "prime motivation for offshoring," the Win-Win report said, "is that it reduces labor costs." That sounds like a win for business, so why is it a win for all?

"Fears about job losses," the report says first, "tend to overplay the likely impact of offshoring. But there is a more fundamental factor to understand: Offshoring creates wealth for U.S. companies and consumers and therefore for the United States as a whole…The more companies innovate, the more competitive they become and the more benefits are passed on to consumers."

McKinsey frankly realized the nature of its challenge: "The starting point is convincing people of the probability of re-employment."

Then it argued, "Unless we pander to protectionism, there is no good reason to believe that our dynamic job creating economy cannot absorb the level of change posed by offshoring."

Laczniak of Marquette University said that notably absent from the report were any considerations of human rights. “You have to look at the social effect of economic decisions,” he said, “not just the economic effects. When you just cherry-pick economic opportunity, there’s a lot that you miss.”

For example, Laczniak pointed out that the report could have included some information on working conditions and human rights issues in the “lower-cost” countries the report advises some companies to consider as Chinese wages rise. “When they talk about the promise of the maquiladora zone on the [U.S.-Mexico] border, they should mention that that area is notorious for human rights abuses and violence.”

Many economists said that, instead of presenting a low-wage, low-skill manufacturing approach as the only successful strategy for the U.S. to pursue, the report should have discussed alternatives. For example, they said, some countries with healthy industrial bases, particularly Germany, have successfully pursued a high-wage, high-skill policy, with the result that wages have risen over the past three decades at the same time that environmental and safety regulations have become more robust.

“If you’re going to be in the business of giving policy advice,” Scott said, “then I’d hope that your advice would be beneficial to American workers.”

McKinsey long claimed that offshoring is a “win-win game” (Part 2 of 2)

When President Obama assumed office, in 2009, he appointed Diana Farrell as a deputy director of the National Economic Council, serving directly under then-director Larry Summers. Farrell had been the director of the McKinsey Global Institute since 2002, and had contributed to McKinsey’s offshoring analyses for many years prior.

“There’s a real irony there given that Obama ran on a platform that offshoring had hurt America. Then, [in Nov. 2008] Obama went to India and used the exact same language, that offshoring was good for everyone,” Hira said.

In Hira’s view, the government carries the primary responsibility for the fact that reports on issues like offshoring are left to be produced by private firms with corporate interests. The government, Hira said, has created a “void” in political discourse by not speaking loudly on the issue or producing its own, more thorough reports.

“I don’t think any rigorous economist would take these reports even half-seriously,” he said. “But that begs the question: Why hasn’t the government done reports? Why hasn’t the National Academy of Sciences done some reports?”

“No matter how you measure it the studies below were very successful in getting their agenda adopted,” Hira continued. “That message was, ‘don’t worry, be happy. Offshoring is a win-win.’”

Consultant social responsibility?

The idea that companies might have ethical responsibilities to consider what economists call "externalities" — that is, the negative byproducts that society endures when a company only takes its bottom line into account — is not a new one. Indeed, a large literature has developed in the last decades concerning "corporate social responsibility," or CSR.

McKinsey 2005 versus McKinsey 2011: from win-win to win-lose?

In 2005, McKinsey issued a report that announced as its first "guiding principle" the proposition that, "We consider any job that is not confined to a particular location as having the potential to be performed anywhere in the world (i.e., globally resourced).

Another 2005 report from the firm noted that, in response to concerns about the impact of offshoring on American workers, some policymakers have called for "legislation to limit offshoring and a few states have already adopted such legislation." McKinsey's response was clear: "Trying to protect jobs this way is a mistake." And, the report claimed, offshoring, at maximum, meant the annual loss of only "several hundred thousand jobs."

McKinsey continued to examine offshoring potential in a variety of countries. In the course of doing so, it produced a 2006 report on Brazil that identified labor regulations and tax regulations as among the factors that "hinder productivity." A 2007 report on Mexico hawked that country's "great potential as a supplier of offshored services," but warned that "a dearth of IT vendors, a costly infrastructure, and a talent pool with limited suitability for multinational positions are among the factors preventing Mexico from realizing the considerable opportunity created by globalization."

Fast-forward to June 2011. A report called An Economy that Works: Job Creation and America's future admits that, while "for the most part American companies have adapted [to globalization] and thrived…the same cannot be said for American workers."

Whereas businesses once "muddled through recessions" and "accepted that productivity declines were a natural consequence of a downturn," the report says, this changed in a "globally competitive environment" (that is, in the environment that McKinsey and its counterparts had helped to foster). Now, "companies increasingly seek to preserve productivity and profitability at the expense of employment."

The report quotes an economist as describing the shift as the rise of "the disposable worker," and estimates that in "the most recent recession, employment absorbed 98 percent of the decline in GDP."

There is no acknowledgement in the report of any role that McKinsey might have played in fostering this type of environment.

"The idea is that looking only at economic decisions is suboptimal," Laczniak said, "so you have to look at the effects of economic decisions, both on the environment and on society." The concept that companies should consider economic, social, and environmental effects of their decisions is referred to as the "triple-bottom line."

Several CSR initiatives have arisen in the last several years. They tend to include the principle that companies need to take responsibility for the outcomes of their actions on various "stakeholders," including communities, consumers, and workers. A second common principle is that of environmental responsibility or "sustainable development."

> "There is a big failure here on the part of the mediating institutions. They can't just parrot this stuff without asking who is behind it." — Ron Hira, Rochester Institute of Technology

When asked what standards of corporate social responsibility should apply to consulting firms like BCG, several experts noted first that the issue would be complicated if a consultant has been retained by a particular client to produce a specific analysis. Indeed, the code of ethics of the Association of Management Consulting Firms and the one promulgated by the Institute of Management Consultants USA both focus on the duties of the consultant to a client, although the latter code calls on each consultant to pledge to "represent the profession with integrity and professionalism" in the consultant's relations not only with clients and colleagues, but with the general public as well.

Remapping Debate did not pursue inquiries as to how consulting firms should balance a duty to a client with a duty to the public for this article, because it appears that BCG produced the "Made in America, Again" report on its own account. Hira, of the Rochester Institute of Technology, characterized the report as "basically a marketing strategy."

In that case, Price said that there was no reason to exempt consulting firms like BCG from broader norms that include ethical concerns. "There's no reason to withhold a desire to see BCG behave in a more ethical way," he said. "We expect people to act morally and we criticize them when they don't. Why should we withhold criticism from certain corporations?"

Laczniak agreed with Price, and added that large consulting firms like BCG may have even more responsibility, in a sense, than the companies they advise. He said that it would be useful if consulting agencies were to agree to abide by a set of industry-specific ethical principles, one of which would say that when giving advice to companies and the public, they would promise to include social and environmental factors in their analysis.

Others expressed skepticism that companies could be trusted to effectively self-regulate, and pointed to the need for other institutions to hold them accountable for their actions. Hira, for example, said he did not fault BCG for positioning itself as a non-partisan source of information when presenting the report. Rather, he said that it was the responsibility of the media to judge the content and present it accurately.

“There is a big failure here on the part of the mediating institutions,” he said. “They can’t just parrot this stuff without asking who is behind it.”

Others said it was the responsibility of the government to make sure companies are behaving in a responsible way. “I sort of take it for granted that they’re going to be telling firms how to make money,” Dean Baker, an economist at the Center for Economic and Policy Research, said. “That’s why we have public policy: to make sure that firms are making profit by doing things that we want them to do.”

But Allen White, a senior fellow at the Tellus Institute, which advocates for sustainable development, and a co-founder of the Global Reporting Initiative, an effort to persuade companies to report on their social impact, said that the value of having CSR principles is that they often evolve into legislation.

“Government sees a set of norms emerging, and once they’re established, [government] says, “it’s time to codify them,’” White said.

An unacceptable status quo?

Ultimately, there was widespread agreement that the current state of affairs — in which a report that only reflects a one-dimensional value system can be treated as neutral and accepted uncritically — is not desirable.

“Imagine if they said, ‘whenever we’re going to put out a public report we’re going to do it in the broad sense,’” Laczniak said. “If they felt obligated to consider social responsibility as well as economic gain, they might have said, ‘Well, those jobs maybe shouldn’t have left in the first place.”

APPENDIX: ANNOTED EXCERPTS FROM THE REPORT

Oct. 25, 2011 — The full PDF of Boston Consulting Group's "Made in America, Again" report is publicly available from the BCG site here. These excerpts have been annotated by Remapping Debate. Numbers in square brackets represent the page of the report from which an excerpt was taken. You can see each annotation by following the footnote at the end of each highlighted section to the bottom of the page.

From the introduction:

Reassess your China strategy

For many products that have a high labor content and are destined for Asian markets, manufacturing in China will remain the best choice[1] because of technological leadership or economies of scale. But China should no longer be treated as the default option. [Page 2]

For more than a decade, deciding where to build a manufacturing plant to supply the world was simple for many companies.[2] With its seemingly limitless supply of low-cost labor and an enormous, rapidly developing domestic market, an artificially low currency, and significant government incentives to attract foreign investment, China was the clear choice.[3] [Page 3]

…Automation and other measures to improve productivity in China won't be enough to preserve the country's cost advantage. Indeed, they will undercut the primary attraction of outsourcing to China — access to low-cost labor[4]… [Page 3]

From the main body:

The U.S. "Decline"[5] and Renaissance in Perspective [Page 4]

…fueled by a relentless wave of imports from a reconstructed Europe and eventually from Japan, the U.S. experienced a dramatic loss of market share in industries such as color TVs, steel, cars, and computer chips. In the 1970s and 1980s, fears of the loss of U.S. industrial competitiveness were particularly acute, prompting a widespread debate over whether the nation should adopt a "Japan Inc."-style industrial policy and teach its schoolchildren to speak Japanese.[6] Then came the rise of

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1 This statement reflects BCG having advised companies in the past that China was the best choice, as well as its current judgment: companies with the specified characteristics should continue to "offshore" to China.

2 A choice is only simple if there aren't a variety of values to incorporate into one's analysis. BCG apparently did not think that there were.

3 Presented as the best and appropriate choice, independent of national interest or of social or environmental impact.

4 Here is an unvarnished statement of the "primary attraction" — it is low-cost labor, not other factors, that drives (and, apparently, should drive) the movement of capital.

5 The use of quotation marks is another way of saying "the so-called decline" of U.S. manufacturing.

6 The rhetorical technique here is to suggest that many Americans panicked and were ready to abandon previously existing skepticism regarding both the need to learn a foreign language (that prospect implying to some a loss of American dominance) and the utility of having a coordinated industrial policy. The report goes on to make clear that the panic was unnecessary because clear-eyed American companies turned out to be resilient.

such East Asian Tigers as South Korea and Taiwan, which led to a massive transfer of production of labor-intensive goods, including apparel, shoes, and toys, and then of much of the U.S. computer and consumer-electronics manufacturing industry. [Page 4]

The U.S. suffered through many painful adjustments to these challenges. Unlike most nations, however, it quickly ripped off the Band-Aid and allowed industry to adapt.[7] [Page 4]

Factories closed, companies failed, banks wrote off losses, and workers had to learn new skills. But U.S. industry and the economy responded with surprising flexibility and speed to reemerge more competitive and productive than ever.[8] By the late 1990s, American companies dominated the world in high-value industries such as microprocessors, aerospace, networking equipment, software, and pharmaceuticals. Manufacturing investment, output, and employment surged. [Page 4]

…From 2000 to 2009, China's exports leapt nearly fivefold, to $1.2 trillion, and its share of global exports rose from 3.9 percent to 9.7 percent…In the U.S., meanwhile, the loss of some 6 million manufacturing jobs and the closure of tens of thousands of factories[9] over the past decade has fanned frequent warnings of a manufacturing crisis. [Page 5]

The Tide Is Turning

Once again, however, predictions of the demise of American manufacturing are likely to prove wrong. The U.S. manufacturing sector remains robust. Output is almost two and a half times its 1972 level in constant dollars, even though employment has dropped by 33 percent.[10] Despite the recent wave of outsourcing to China, the value of U.S. manufacturing output increased by one-third, to $1.65 trillion, from 1997 to 2008 — before the onset of the recession — thanks to the strongest productivity growth in the industrial world.[11] Although China accounted for 19.8 percent of global manufacturing value added in 2010, the U.S. still accounted for 19.4 percent — a share that has declined only slightly over the past three decades. [Page 5]

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7 Unlike other countries that foolishly tried to protect workers, the U.S. heroically resisted that path and let nature (the market) take its course.

8 Here the report explicitly suggests that the suffering of companies, banks, and workers was equivalent, a view with which many experts disagree. And the tale continues on an optimistic note: everything worked out for the best. This section puts the previous dismissive use of "decline" in context: in reality, the fittest companies not only survived but grew stronger as they shed romantic, paternalistic notions of proper behavior towards workers, creating a new, harsher norm.

9 China joined the World Trade Organization in 2001. Despite confident predictions from the backers of increased globalization that the process would raise all boats, the results have not been good for many U.S. workers.

10 A disaster for domestic employment is presented as a side issue: the key is that output is up, not that the benefits have flowed exclusively to companies and not workers.

11 The report does not question why the unmatched productivity growth has failed to redound to the benefit of American workers.

The conditions are coalescing for another U.S. resurgence. Rising wages, shipping costs, and land prices — combined with a strengthening renminbi — are rapidly eroding China's cost advantages. The U.S., meanwhile, is becoming a lower-cost[12] country. Wages have declined or are rising only moderately. The dollar is weakening. The workforce is becoming increasingly flexible.[13] Productivity growth continues. [Page 5]

Our analysis concludes that, within five years, the total cost of production for many products will be only about 10 to 15 percent less in Chinese coastal cities than in some parts of the U.S. where factories are likely to be built.[14] Factor in shipping, inventory costs, and other considerations, and — for many goods destined for the North American market — the cost gap between sourcing in China and manufacturing in the U.S. will be minimal… [Page 5]

When all costs are taken into account, certain U.S. states, such as South Carolina, Alabama, and Tennessee, will turn out to be among the least expensive production sites in the industrialized world.[15] As a result, we expect companies to begin building more capacity in the U.S. to supply North America. The early evidence of such a shift is mounting… [Page 5-6]

Ford Motor Company is bringing up to 2,000 jobs back to the U.S. in the wake of a favorable agreement with the United Auto Workers[16] that allows the company to hire new workers at $14 per hour… [Page 6]

China's rising wages

…From 2005 through 2010, wage hikes [in China] averaged 19 percent per year, while the fully loaded cost of U.S. production workers rose by only 4 percent[17]…. [Page 7]

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12 Unabashedly presented as an entirely positive development.

13 This, too, is unabashedly presented as an entirely positive development.

14 In this world view, a company would only consider those parts of the United States where costs are low. The statement about "where factories are likely to be built" is important: it is presented as a self-evident truth, when, in fact, its validity depends: (a) on labor being kept weak in the parts of the U.S. being referred to (selected Southern states, as the report later makes explicit); and (b) there being no restraints on companies relocating as part of a ratchet-costs-down-regardless-of-impact strategy. In fact, the statement is more about what the firm thinks should happen (that is, the environment that should exist and the pathway companies should take).

15 A report like this is itself the type of ammunition that these states will use to attract businesses engaged in a race to the bottom (or near-bottom). And it will be ammunition as well for those who seek to reduce worker protections in other parts of the United States.

16 BCG is apparently referring here to the agreement between the UAW and General Motors. "Favorable" to the automaker can have two meanings here: first, the fact that, as a matter of negotiation, GM took what had initially been sold as a temporary introduction of a two-tier wage system and made it, for the foreseeable future, a permanent one. It can also reflect BCG applauding this type of labor agreement that reduces second tier wages to 50 percent of first tier wages.

17 BCG's lens is very clear: when the cost of a production worker rises less than 1 percent a year, that is good. The broader impact on the American economy of worker incomes shrinking in real-dollar terms is not part of the picture.

It is also possible that [the trend of higher wages in China] will accelerate. Chinese labor organizations are gaining a greater ability to demand higher wages and benefits from foreign companies. The government is enacting new labor laws that give greater rights to workers,[18] requiring, for example, that companies pay laid-off workers one month's salary in severance for every year that they worked. [Page 8]

Productivity Insufficient to Offset Wage Increases

…To illustrate how the math is changing, let's look at a hypothetical part for a car assembled in the U.S. One option is to make the part in the U.S. south — say, in South Carolina. The alternative is to make it in the Yangtze River Delta[19]…[Page 9]

In 2000, it would have made economic sense to source the part in China,[20] where wages were about 20 times lower. Now fast-forward to 2015. The U.S. labor cost for the part will come to $3.31. At a factory in the Yangtze River Delta, workers will still be earning only one-quarter of their U.S. counterparts' wages. However, even with massive productivity improvements, output per worker at the Chinese factory will be only 42 percent that of a southern U.S. plant. So the Chinese labor cost for the part will be $2.00, bringing the savings down to 39 percent. Moreover, since labor represents approximately one-quarter of the total cost of making the part, the total savings will shrink further, to less than 10 percent… [Page 9-10]

The Limits of Automation

It might seem that greater investment in automation would solve the problem of China's lower productivity. Multinational companies would merely have to install the same equipment used in their factories

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18 Some would say that increasing labor protection for Chinese workers is a good thing in its own right. BCG only analyzes the issue in strategic terms: higher wages for Chinese workers mean less of an advantage for companies seeking the lowest-cost workers. Under that type of analysis, if the U.S. government were to increase protections, the cost gap would widen and make it appropriate for offshoring to China to become the "default choice" again.

19 A highly constricted and constricting view of the options. A company should not be thinking, it appears that BCG is saying, of locating a plant in other, higher-wage parts of the U.S. The implicit policy advocacy is the presentation of alternatives in a way to suggest that the only way that states and regions can "get in the game" is to mimic their low-wage counterparts.

20 This statement reflects the firm's cheerleader role in urging American businesses to turn away from American suppliers. It is also one of the few places in the report where, even indirectly (by modifying the word "sense" with the term "economic"), there is any realization that there can be other kinds of "sense" (those other kinds of sense — moral, environmental, equitable, or patriotic, to name a few — are not part of the report). Note, too, that there is no acknowledgment that what makes "economic sense" is a reflection of rules that governments have decided to impose or not to impose, and that those choices can be modified to reflect a different set of values.

at home. That, however, would undercut the chief competitive advantage of manufacturing in China — low labor costs. Automation reduces a product's labor content.[21] Despite the greater productivity that automation would afford, China's total cost advantage over the U.S. would likely not increase significantly as a result… [Page 10]

Other Low-cost Countries

It might seem reasonable for many companies to look for sourcing opportunities in other low-cost nations and to shift much of their export manufacturing from China to these cheaper locations.[22] Fully loaded hourly manufacturing wages average $1.80 in Thailand, 49 cents in Vietnam, 38 cents in Indonesia, and 35 cents in Cambodia. There has already been a significant transfer of work in apparel, footwear, sporting goods, and other labor-intensive products to South and Southeast Asia… [Page 11-12]

[Mexico] has the potential to be a big winner when it comes to supplying North America. It has the enormous advantage of bordering the U.S., which means that goods can reach much of the country in a day or two, as opposed to at least 21 days by ship from China. Goods imported from Mexico can also enter duty-free, thanks to the North American Free Trade Agreement. In addition, by 2015, wages in Mexico will be significantly lower than in China. In 2000, Mexican factory workers earned more than four times as much as Chinese workers. After China's entry into the WTO in 2001, however, maquiladora industrial zones bordering the U.S. suffered a large loss in manufacturing. Now that has changed. By 2010, Chinese workers were earning only two-thirds as much as their Mexican counterparts. By 2015, BCG forecasts that the fully loaded cost of hiring Chinese workers will be 25 percent higher than the cost of using Mexican workers[23]… [Page 12]

The Role of Government Incentives

Governments in Asia and Europe have used generous financial incentives to persuade multinational companies to build high-tech plants in targeted industries. Frequently they offered terms that the U.S. could not match, such as ten-year holidays from corporate taxes, cash grants, and cheap loans. In

21 Here is the unvarnished story of why BCG, McKinsey, and their colleagues urged offshoring for so long: "the chief competitive advantage of manufacturing in China — low labor costs." That the workplace environment in China was strikingly similar that of the U.S. in the early days of industrialization — ultra-low wages, with limited automation part and parcel of poor working conditions — has been of no account to the firms when they offered (and offer) their advice.

22 If cost is the only criterion, no other values are considered, and no more socially-protective rules are introduced.

23 An alert for companies to keep their eye on offshoring potential in Mexico if, as BCG expects, labor in that country becomes, in relative if not absolute terms, cheaper (that is, more debased) than labor in China. The only problem, the report goes on to say, is that Mexico needs to solve problems of "personal safety, skill shortages, and poor infrastructure."

recent years, the federal government and many states have closed the gap with aggressive incentive packages, making the U.S. more competitive in the chase for manufacturing facilities[24]… [Page 12-13]

The Implications for Companies

The shifting cost structure between China and the U.S. will present more manufacturing and sourcing choices. For many products that have a high labor content and are destined for Asian markets, manufacturing in China will still make sense because of technological leadership or economies of scale. But China should no longer be treated as the default option.[25] [Page 13]

Companies should undertake a fresh, rigorous, product-by-product analysis of their global supply networks that takes into account the total cost of production. Rather than fixate on labor rates, this analysis should factor in worker productivity, transit costs, time-to-market considerations, logistical risks, energy costs, and other expenses in a range of scenarios. Companies should also make sure that their supply chains are flexible, dynamic, and globally balanced, providing the leeway to shift production and sourcing to other locations when the time is right.[26] And they should weigh the many intrinsic advantages of locating manufacturing close to consumers, such as the ability to more quickly get products into the hands of customers, replace depleted inventory of popular items, and make design changes in response to market trends or customer demands. [Page 13-14]

In some cases, companies may find that now is the time it makes tactical sense to move some production away from China and into the U.S., Mexico, or Southeast Asia.[27] Manufacturers that remain in China for economic or strategic reasons will have to find dramatic ways to improve efficiency if they are to preserve current levels of profitability in the face of double-digit annual wage hikes. [Page 14]

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24 “Aggressive incentive packages” are praised as helping in a “chase” for manufacturing dollars. In that kind of “chase,” of course, it is the companies that are in the driver’s seat, and the U.S. government and state governments are mere supplicants. Thus, while the report frequently urges companies to think strategically, it makes no proposals for governments to do the same (for example, by altering the playing field to exercise more leverage). It is apparently hoped that governments won’t question the orthodoxy that they are powerless in the face of what is and what should be limitlessly mobile capital.

25 In other words, until now, in BCG’s view, it was appropriate to have China be the default option when American companies considered where to locate their manufacturing operations. The fundamental factor that companies should look at — cost — hasn’t changed. If it is cheaper to keep on building in China, do that. If cheaper in a third country, do that.

26 A crucial operational principle: companies should avoid loyalty to or dependence on any country, state, or community. Instead, they should be positioned so that the host governmental entity knows that they are there only so long as that governmental entity is prepared to be more compliant than any other.

27 When everything is a matter of tactics, it does not occur to the analyst that there is anything to distinguish between and among China, the U.S., Mexico, and Southeast Asia other than the factors described in the preceding sentence — vastly different social conditions and impacts notwithstanding.

More-strategic decisions will have to be made when the time comes to consider where to build new manufacturing capacity to serve markets outside of China. Our analysis suggests that the U.S. will become an increasingly attractive option, especially for products consumed in North America. As long as it provides a favorable investment climate and flexible labor force, the U.S. can look forward to a manufacturing renaissance.[28] [Page 14]

This content originally appeared at http://remappingdebate.org/article/looking-beneath-consulting-firms-facade-objectivity

28 Translation: policymakers need to understand that America has prospered by being deferential to business. If that hands-off policy is tinkered with, bad things will happen. Don't regulate in general, and don't either help re-empower labor or restrict the movement of capital in any way.