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WORKPLACE

## Commentary: Low-Skilled Jobs: Do They Have to Move?

Stroll through New Balance Athletic Shoe Inc.'s factory in Norridgewock, Me., and you will see workers using high-tech skills to make a low-tech product. Well-trained, \$14-an-hour employees work in small teams, perform a half-dozen jobs, and switch tasks every few minutes. Some operate computerized equipment with up to 20 sewing-machine heads running at once. Others control an automated stitcher guided by cameras, which allows one operator to do the work of six using ordinary sewing machines.

Now, visit a Chinese subcontractor's factory that makes the same shoe for New Balance. You might think you had traveled back in time 100 years. In the factories that manufacture shoes for New Balance, Nike, Reebok International, and other U.S.-based athletic-footwear companies, hundreds of women hunch over sewing machines much like ones used in their grandmothers' time. The story is the same across China and in Indonesia and Vietnam. Young women in their teens or early 20s, with little education and few skills, put in long hours six days a week, usually performing the same task in mind-numbing repetition for 20 cents to 40 cents an hour.

The ability of New Balance's five U.S. factories to offset this vast labor-cost gap raises an intriguing issue: Would the U.S. be better off if low-skilled jobs could be upgraded instead of moved to low-wage countries? Economists have long argued that the U.S. as a whole is better-off when low-skilled manufacturing goes abroad. True, a company usually earns more profit by slashing labor costs. But to economists, that's not the point. Rather, according to the doctrine of comparative advantage, U.S. productivity and living standards will rise if we allow countries with a relative abundance of low-priced labor to perform our low-skilled work. Doing so frees up U.S. investment and workers to move to industries that require more skill and capital investment—areas in which our advanced economy has the edge.

**IRON LAW.** Now some trade experts are wondering if the seemingly iron law of comparative advantage always holds. The theory rests on the assumption that a low-skilled U.S. job shifted offshore would have remained low-skilled had it stayed home. But if U.S. companies could raise the skill level for such work and perform the task more efficiently, as New Balance does, the gains from shifting production would diminish. If the work can be upgraded, "it's not so obvious which countries should do the exporting," says Robert C. Feenstra, a trade economist at the University of California at Davis. "Our predictions about trade patterns get a little hazy when this happens; economists haven't really worked it out."

The issue raises interesting questions for U.S. policy, especially at a time when manufacturing workers are facing a new wave of layoffs as the economy slows. Trade economists have shown that the shift of jobs overseas is one reason for the decades-long decline in the wages of low-skilled U.S. workers. And individual job losers suffer economic setbacks that can last for years. Still, economists say, the gains to the overall U.S. economy outweigh such losses. If it turns out that improving the jobs offsets that gain, U.S. policymakers may want to encourage companies to take this path. For example, Congress might offer tax credits or other incentives to companies that invest in training or technology for low-skilled production.

If nothing else, New Balance's efforts show that it's possible to improve jobs instead of move them. In this case, the drive to do so comes from owner Jim Davis, who bought the private company in 1972 when it had sales of \$100,000. As he watched Nike and other rivals move offshore, Davis came to think that producing close to his customers could give him an advantage in quick turnaround on new styles and in fulfilling orders for shoe stores. The son of immigrants who prospered in America, Davis says he also feels a personal obligation to produce in the U.S. "It's part of the company's culture to design and manufacture here," he explains.

But doing so requires constant innovation. Over the past five years, New Balance has doubled its U.S. workforce, to 1,200, and

opened a fifth U.S. factory. But back in the mid-1990s, sales exploded--from about \$300 million to \$1.1 billion today. The company couldn't ramp up U.S. production fast enough to keep pace, so it turned to subcontractors to fill the gap. The share of its shoes produced at home fell to 25%, with the rest coming from Asia. Over time, Davis says, he aims to get back to the 70% production New Balance maintained in the U.S. five years ago.

How can New Balance make shoes at home when Nike, Reebok, and the rest can't? Mainly by adopting the latest manufacturing techniques used by U.S. companies in higher-skilled industries. Employees start with 22 hours of classroom instruction on teamwork and other techniques and get constant training on the factory floor. They work in teams of five or six, sharing tasks and picking up the slack for one another to make sure they get everything done.

**SEE-AND-SEW.** New Balance managers also spend a lot of time looking for new technology and adapting it to their needs. For example, the company's 70 see-and-sew machines, which cost \$100,000 each, come with standard metal templates that were designed for the clothing industry. New Balance factories set up on-site machine shops to grind their own templates, which guide a needle in the shape of each shoe part. It takes a week to create the 30-odd templates needed for a typical shoe.

The combination of teams and technology has slashed the cost disadvantage of producing in the U.S. New Balance's U.S. workers turn out a pair of shoes in just 24 minutes, vs. about three hours in the Asian factories that make the same product, says Herb Spivak, New Balance's head of operations. If the U.S. workers were no more efficient than those in China, New Balance's labor costs in the U.S., where it pays \$14 an hour in wages and benefits, would be an untenable \$44 per pair of shoes. But the company has whittled the cost down to \$4 a pair vs. \$1.30 in China, where labor costs are about 40 cents an hour. "[In Asia,] their labor is so inexpensive that they can waste it," says Spivak. "Ours is so dear that we come up with techniques to be very efficient."

Davis says New Balance can remain competitive under these circumstances. The remaining \$2.70 labor cost differential is a manageable 4% of a typical \$70 shoe. And it's offset by the advantages of producing in the U.S., says Davis, where he can fill store orders faster than rivals and whip out style changes more quickly. This also allows New Balance to forgo extensive advertising, so it can afford the \$15 million or so in annual capital investments required by its high-tech approach. Profits come in at midrange in the industry.

Of course, many of the millions of U.S. jobs that have gone offshore over the decades could probably never have been upgraded enough to offset the vast wage differentials with developing countries. But New Balance's experience provokes the question of whether the U.S. should begin to encourage companies to take the alternative path to profits.

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