

**Jonathan Schechter – “Corpus Callosum” Column**  
**Jackson Hole News&Guide – January 13, 2010**

A just-released study noted that China has become the world’s leading exporter. Another shows that China has just become the world’s largest auto market; yet another projects that, within five or so years, China will surpass the United States as the world’s leading manufacturer.

Most sentient beings know that China’s manufacturing growth has decimated American jobs in the so-called “Rust Belt.” Less well known is that the Rust Belt’s erosion began decades ago, when manufacturing jobs moved to the southern U.S., to capitalize on lower wages, weaker unions, and a looser regulatory environment. The difference today is that, thanks to dramatic improvements in technology and education, it’s not just the American south which can manufacture high-quality goods at significantly lower prices. The result? Other countries are doing to the U.S. that which, several decades ago, the south did to the north.

Remarkably, America’s economy has not only survived this economic tsunami, but thrived. The reason? A rapid shift to a service economy, especially high-tech, high-margin industries like engineering and finance. Until 2008’s financial meltdown, this shift produced a long period of tremendous prosperity for both individuals and the nation.

There’s a rub though. During the last couple of decades, other countries began manufacturing high-quality goods at a far lower cost; during the next couple of decades, the same thing is likely to occur in those areas – including high-tech, engineering, and finance – the U.S. has relied upon for its recent prosperity. For example, most of us have experienced call centers in India. But did you know the e-version of this newspaper is produced in India? Ditto the programming for a soon-to-be-launched e-commerce website to be run out of Jackson.

Four facts underlie this reality. First, most businesses can be categorized as producing either low-margin commodities or high-margin scarcities. Second, any high-margin business that can be reduced to bits-and-bytes or done without the need for immediate physical contact is fair game to be done remotely, and therefore become a commodity. Third, the success of any business is increasingly related to its ability to combine a good idea with efficient use of technology, telecommunications, and a highly-educated workforce. Fourth, technology and telecommunications are already commodities, and a highly-educated workforce is rapidly becoming commonplace in many countries.

Add all this together and you get the stark reality facing the American economy: Over the next several decades, both manufacturing and services will increasingly become commodified. As a result, a business’s only meaningful distinguishing characteristic will be the quality of its ideas, something no country monopolizes.

Bottom line? Going forward, global competition will become increasingly fierce, and America will see an erosion of the economic and intellectual hegemony we’ve enjoyed the last several decades.

All these thoughts were prompted by a lecture given last week by part-time resident James Wolfensohn, who spoke about the global economy at a fundraising event for the Russian Club of Jackson Hole. (Personal aside – isn’t it remarkable that a community of 20,000, in a state of 500,000, can support something as wonderfully esoteric as the Russian Club? We truly enjoy an embarrassment of riches.)

Mr. Wolfensohn gave a stimulating and thoroughly sobering talk, especially because Jackson Hole seems so remote from manufacturing plants in China or software programmers in India. But as I reflected on his words, I thought of two people I know in Jackson Hole. One’s a lawyer in a national law firm which has no central office; the other’s a clothing manufacturer who runs his business here, has his office work done on

the east coast, and manufactures product all around the world. Neither could have operated here 20 years ago, yet Jackson currently houses dozens, if not hundreds, of such businesses.

From this perspective, Jackson Hole, America, and the world will clearly be different places 20 years from now; the only questions are “In what way?” and “To what degree?” While I can’t answer these questions, I can begin to frame them. The place to start is 200+ years ago, at the beginning of the Industrial Revolution.

At its core, the Industrial Revolution is simply an application of the Scientific Method. Without the Scientific Method, there would have been no Industrial Revolution; thanks to the Industrial Revolution, the significance of the Scientific Method has been proven far beyond any reasonable doubt. The evidence? Compare the world of today to that of 200 years ago. Until the late 18<sup>th</sup> century, humans relied on faith-based methods to interpret the world. And while faith is vital to the human spirit, faith-based explanations of how the world works lack the explanatory power of the Scientific Method. As a result, in the marketplace of ideas, the Scientific Method has proven superior, allowing people to more effectively capitalize on the earth’s resources. The consequence? Over the past two centuries, humans have enjoyed an increase in wealth and material well-being far beyond anything imaginable during the previous two millennia.

Harnessed to the power of the Industrial Revolution, the findings of the Scientific Method have turned once-scarce qualities such as sanitation, health care, and education into commodities. How successful has this process been? Today, we use the term “basics” to describe things most people should have, such as clean water, sanitary sewers, adequate food, and the like. 250 years ago, these were the purview of the aristocracy.

But the Industrial Revolution has not been an unmitigated good, for it has also taken things which once were commodities and turned them into increasingly-scarce goods. By this I mean things like unpolluted air, ubiquitous populations of wildlife, or seemingly limitless natural resources such as forests and fisheries. The reason for this is that, in an odd irony, at the core of the Industrial Revolution are two faith-based assumptions: that natural resources are essentially limitless; and that these resources can be used without regard for either consumption rates or, more subtly, whether such unlimited use has larger consequences.

Today, we sorta know these assumptions are false. I say “sorta” because, if we really believed resources were limited, economists would have done what the assumption of limitless resources has never required them to do: value natural resources in a way that recognizes that some resources (e.g. oil and minerals) exist in finite quantities, and others (e.g. forests and fish) can be harvested much faster than they can reproduce.

If natural resources ever are properly valued, there will be far fewer externalities (e.g. air pollution or fish stocks driven to near-extinction). Better still, proper pricing will allow externalities which do arise to be addressed more quickly and effectively. However, we’re a long way from that point, because we still cling to that faith-based belief that there are no limits to the earth’s resources.

Over the next few decades, this fallacy is going to become increasingly important. It’s already manifesting itself in issues ranging from water scarcity in the Middle East to air pollution in China. These and countless other cases are resulting in political and economic tensions unimaginable only a few decades ago. Further, with more and more people on the earth every day, and with those people all aspiring to the post-Industrial Revolution lifestyle standards of the west, we’ve seen only the beginning of natural resource-induced conflicts. Making matters worse is that we have little experience with such issues, and therefore few good models to follow when addressing them.

With this as context, let’s consider where Jackson Hole might be heading. In the dialectic above,

there's a thesis: In its first couple of centuries, the Industrial Revolution has increasingly made commodities out of once-scarce qualities. There's also an antithesis: During the last few decades, the Industrial Revolution has increasingly made scarce those things which were once commodities. Developing the synthesis – allowing people to enjoy the benefits of the Industrial Revolution while making sure its drawbacks don't fundamentally disrupt the world's natural, economic, or political systems – is the challenge for the next several decades.

In other words, we have to learn to be sustainable. And when it comes to sustainability, Jackson Hole is uniquely positioned, for in our own little isolated valley, we've got the best of both worlds: Incredible natural resources, and incredible material wealth and well-being. In fact, I would posit that, when judged by material well-being, Teton County's 20,000 residents today are far better off than the 20,000 wealthiest Europeans 250 years ago.

In this context, at a minimum our challenge is to not screw up our remarkable natural resources. Why? Because as earth's population grows, these resources will only become more scarce, and therefore more valuable. Beyond that, if we choose we can also serve as a model for the world, figuring out how to enjoy our current quality of life while using far fewer resources.

Less clear is whether we can actually do this, for doing so would require a type of foresightedness and cooperation not often shown by our species. If we succeed, though, it will be because we created our own synthesis, one combining the belief in Jackson Hole which brought us here, and the rigor of the scientific process which allows us to actually live here.