A Production Supply Chain Rebuild: Saving the Crumbling US Economy

By Brian Lantz

Why are US supply chains disrupted, prices rising, inventories falling and the US back-order index increasing? Global trade is up only 2.7% worldwide, according to the giant container shipping company Maersk. However, in the US there is a 'log-jam,' seen in unplanned empty shelves in retail stores, shortages of foodstuffs, medical supply shortages, labor shortages, back ordered car parts, and fields full of unfinished automobiles and trucks lacking their computer chips. The list goes on.

What we are now experiencing is the demise of the globalist "just-in-time" management methods intended to compensate for the outsourcing of American jobs. A "Dr. Frankenstein" of sorts – the methods promulgated by a legion of MBA clones working on behalf of the City of London and Wall Street asset managers, hedge funds and banksters – just had its nervous breakdown. "Just in time," having demonstrated its catastrophic consequences, is kaput.

We can rebuild the US as a manufacturing superpower. We can grow something much more vital, and any effective approach to reverse the economic devastation of the last 50 years begins with Physical Economy. What is required is to identify those initiatives and interventions which will produce an escalating increase in the productivity of the physical economy —not increases in "monetary" growth, but a sustained growth in what Alexander Hamilton defined as "Labor Power."

With that in mind, lets proceed to a better understanding the problems we must solve. More than anything, it requires a change in thinking.

What Supplies? What Management?

Normally, supply chain managers plan, forecast demand, design the supply chain, and oversee the processes for ordering, receiving, managing inventory. A "just-in-time" (*JIT*) inventory system became the Harvard MBA-approved management strategy that had companies and their managers receiving goods (and labor) just as close as possible to when they are needed, and as little as was needed, to minimize inventory and cutting costs. Short-term thinking at its worst. It was an adaptation of a system first developed in Japan, and otherwise associated with American engineer and management consultant W. Edwards Deming, which had rightfully prioritized workforce development and product quality. As opposed to Deming's focus on quality and workforce development, Wall Street's "just in time" system measured "market efficiency" in making the quick buck, and imposed outsourcing and offshoring as essential elements of its system.

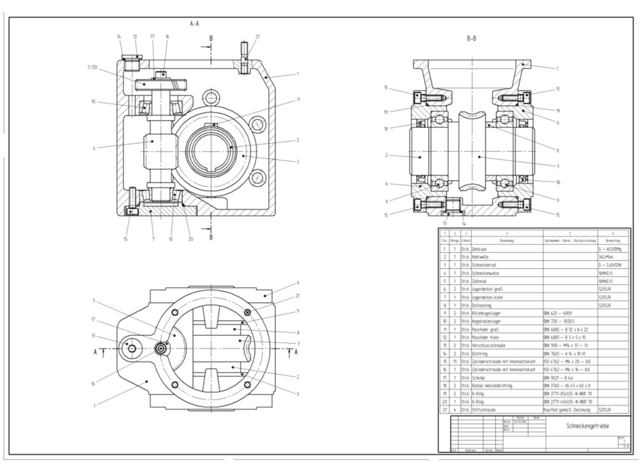
Inculcated with the methods of our cancerous financialized monetarist system and utilizing systems of algorithms to digitally model globalized "just-in-time" (JIT) supply and demand projections, a virtual reality was created, farther and farther removed from the real world. In production, this is termed lean manufacturing, better termed ‘skin-and-bones.’ In the US we became most vulnerable to this disease because we stopped producing, and now import about $3 trillion dollars’ worth of goods a year, 77% manufactured elsewhere. We became systemically dependent on an intricate global supply chain of producers and their suppliers, all expected to deliver just-in-time. With the Covid-19 pandemic, those chains broke.

Now there is a corporate scramble and a rethink by nations. International corporations including even Toyota, the Japanese firm most associated with the original concept of JIT, are now stocking up on their own inventory, and ordering their suppliers to do likewise. “We are really committed to going to an order-based system and keeping inventories at 50 to 60 days’ supply,” intoned Ford Motor Company CEO Jim Farley during Ford’s Q2 2021 earnings call with investors.

Supermarkets are stocking up on everything from sugar to frozen meat before they get pricey, intent on keeping their shelves full, but driving further shortages of some staples. Grocery industry executives have been reporting mounting transportation costs, “labor pressure” and “ingredient constraints.”

Companies of all kinds, including the construction industry, are suddenly leasing and buying warehousing space, to store inventory they never held before – if they can get it.

What are, after all, Supply Chains?



This begs a question: What after all, are, “supply chains?” The term “supply chain” encompasses the process of moving a finished good from procurement to fulfillment in a cycle. They also involve the carriers and regulators who oversee transporting goods, both to the producer and from producer to market. Supply chain management is the practice of managing the operations, logistics and inventory levels as part of coordinating between the buyers and suppliers. To restore this as a functioning process now, so vital to the production itself, we must “reshore” strategically important supply chains. More importantly we must move more actual production back into the United States, building new domestic supply chains and reorganizing those that already exist, to put America first. That means we must also firmly commit to the qualities of training and education that create a productive workforce and communities of tomorrow.

In the production process itself, a *“process sheet”* is used, with the set of manufacturing instructions for a specific batch, lot, or runs of production. The process sheet describes the operating parameters and settings for the equipment and facilities used, and associated tooling or supplies. It contains part information, routing information, and operation detail information.

An accurate “*bill of materials”* then becomes vital, because it ensures that parts are available when needed, as well as ensuring that the assembly process is efficient. It informs the process of organizing the required supply chains. Supply chain managers then coordinate the steps involved, including raw materials procurement, the manufacturing of the product, quality testing and then packaging.

Inventories

As federal stimulus cash rains down and runs through the tiny US productive sector itself, there is not now the current domestic production capacity and supply chains to meet the demand being created. Manufacturers have difficulty getting the supplies they require, including skilled and motivated labor. There is also the “two trillion-dollar question”: how are Americans, largely the middle class and wealthy, going to now spend the new money that has accumulated in their checking and savings accounts over the Covid-19 crisis. Demand is already outstripping existing inventories and manpower. But it also cannot be met by international shipping capacity into the North America trade market. The Institute for Supply Chain Management (ISM) released its index of customer inventories at the beginning of August, "revealing an alarming drop. The index fell to 25 in July, down from 30.8 in June, to the lowest point since the index was created in 1997." The Bureau of Economic Analysis (BEA) also released its latest sales and inventories through May. As reported in *Freightwaves*, a transportation and logistics publication, "BEA data on retail inventories (excluding motor vehicles and parts) and inventory-to-sales ratios highlight the strength of consumer spending.... [I]nventories were only 0.96 months of sales, up only slightly from the all-time low in March and 12.2% below the ratio in May 2019."

For the past several months, ocean freight companies shipping into the North America market such as Maersk, CMA CGM, APL, Cosco, and Evergreen Line have reported the massive congestion in West Coast ports in the United States – and major ports in Asia.

Alphaliner – the proprietary database utilized by shipping executives, fleet managers, and shipbrokers – is simultaneously reporting a lack of fleet capacity, stating that 20-25 percent more fleet capacity is required. The idle container fleet globally now stands at a mere 0.7% of the total active fleet. Freight rates, and container costs are at record levels. Yet observers expect no new shipping capacity to come on line for the next two years.

Asian Production & "Delta"

Furthering the catastrophe in the present supply chain system, the economies of Indonesia, Vietnam and Malaysia are in contraction, dut to the impact of the new Covid "Delta" variant. These have become major producing markets for goods, as the US-China trade conflict grew more intrasigent, and more production was outsourced into Southeast Asia. The Producer Managers Index's for the countries are now in the low to mid 40's. Fifty is break-even, with zero growth; less than that is clear contraction.

In China itself, the major Port of Yantian in the city of Shenzhen, Guangdong province, was locked down during the month of June, due to a new Covid outbreak. As a result, several container ships were stuck at anchor off Los Angeles and Long Beach, as they had no open port to return to! Then on August 11, a terminal at Ningbo-Zhoushan was locked down due to a fresh Covid case there, creating more hysteria in trading circles. Ningbo-Zhoushan is one of the top three ports in the world by cargo tonnage.

In China, the "Delta" variant of Covid is reported in 17 of 22 provinces, even though the number of total cases reported daily is only in the range of 100-125 day. This has impacted shipping from Hainan Island to Beijing/Tianjin, with truck drivers required to show negative Covid tests to enter port facilities, slowing the loading and unloading process. This has impacted total trade as well. China's foreign trade expanded to 21.34 trillion yuan ($3.3 trillion) in the first seven months, up 24.5 percent year-on-year and 22.3 percent from the same period in 2019, according to the General Administration of Customs. However, export growth in July was only 8.1 percent compared with the previous year, dropping well below the 20.2-percent growth in June.

Global supply chains had also been put under strain when a huge container vessel became stuck in the Suez Canal back in March. The *Ever Given*, which carries cargo between Asia and Europe, blocked the strategic shipping lane in Egypt for almost a week. That caused cascading disruptions and delays to the global shipping industry as vessels were forced to wait for the canal to reopen or take the route around the southern tip of Africa. In March, due to knock-on effects of the *Ever Given* and Covid outbreaks in various ports, it was estimated that some 200,000 seafarers internationally remained on board commercial vessels, unable to be repatriated and past the expiry of their contracts, according to the International Maritime Organization (IMO).

Domestic Rail and Freight – An Intermodal Blame Game

The crisis in US freight and trucking adds another breakdown feature. They also operate on a just-in-time basis. As a shipper put it: it does not help that you have trucks and rail waiting in some other country. You must have them here. US trucking utilization is running at 100% through the third quarter. Carriers have grounded up to 10% of their trucks due to a lack of drivers. As *Loadstar* reports, “That makes fleet expansion academic.” As much as 1/3 of US truck freight has therefore moved to the spot market, paying a premium an average of 30% or more over contract trucking rates that themselves have risen more than 33% in a year.

Rail freight is also jamming up. Railcar ‘turn times’ have doubled, to about 10 days. As a result, containers are backing up in ports. Due to the volume of rail freight attempting to move into the US from US ports, containers that get through are then stacking up in railroad freight yards, due to a shortage of trucks and drivers that would carry the goods to final destinations. As a result, containers are further backing up in the ports. One example: containers headed for the Midwest have been stuck at the New York/New Jersey port complex because of congestion on the rail network in the Chicago area, where several intermodal rail yards have been clogged up. One result is that trucking volumes, from the east coast to the Midwest, have gone up despite the costs, which further compounds the trucking shortage!

So much for “Precision Scheduled Railroading!” - another form of just-in-time.

A Manufacturing Super-Power

We obviously can and must do better than this. But you can’t snap your fingers to conjure new manufacturing plants into existence. This is particularly true today, when the nation’s banking and financial institutions are diverting the bulk of available credit into financial investments and various forms of monetary speculation. Yet, even if investment capital is available, and if willing entrepreneurs are to be found, the question arises: Is there a market for what is going to be produced? Will such new enterprises prove viable and profitable?

Lyndon LaRouche’s Four Laws provide a pathway out of this disaster of incompetence. Based on LaRouche’s four principles for rebuilding the economy, national infrastructure projects in energy, water, and advanced transportation systems to move materials and products will be built. Not by filling in potholes and sinking trillions into mindless windmills and solar panels, as Biden and his allies in the World Economic Forum would have it -- but by building back coal and natural gas energy capabilities, on the way to hydrogen, nuclear and fusion energy as power sources. Likewise, advanced passenger and freight rail systems are built on a scale and for a duration which will provide for tomorrow’s growing needs. In addition to his Four Laws, LaRouche elaborated the principles for doing this in his, “Special Report: Science and Infrastructure," published in 2002.

The fact that these major infrastructure investments tend to be long term will provide stability and trust for those individuals or corporations contemplating private investment in creating the new manufacturing endeavors, and their domestic supply chains. This approach encompasses everything from large corporations to “start-up” enterprises. If such projects are also undertaken with some form of “Buy in America” guidelines, this will provide added security to those who want to participate. In essence, from a Hamiltonian perspective, such government initiatives will catalyze the creation of new companies, new projects, and new innovations.

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