



Rodney's Take

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The De-Globalizing World

In 1951, the European Coal and Steel Community (ECSC) was created by the signing of the Treaty of Paris. The goal was to help rebuild the economies of France and West Germany by pooling the resources that are the building blocks for modern economies and to invite other countries to participate. In addition to achieving economies of scale, they also hoped to stop killing each other. If as a nation you're economically tied to another country at the hip, you're less likely to try to kill the people in that country. The ECSC was a precursor to the Treaty of Rome that laid the groundwork for the European Union. Those agreements led to the free flow of capital, people, and goods, which led to higher standards of living. That was then.

The same thought process that led Adam Smith to describe an invisible hand guiding us toward the specialization of labor also nudged us to establish manufacturing hubs in low-cost locales. By sourcing supplies overseas, we can task our domestic (and expensive) labor with other things. This all works great... until you lose confidence in your supplier.

Eight Japanese companies, including Toyota and Sony, recently announced that they created a consortium, Rapidus, to develop and make next-generation semiconductors. The buy-in, \$7 million apiece, isn't huge in the scheme of things, given that the U.S. just passed a law that calls for spending \$50 billion to create new semiconductor fabrication plants domestically, but we should be clear about the way we're headed. Instead of letting the invisible hand guide us to a more-connected, lower-cost world,

we're specifically choosing redundancy. As we worry about supply years from now, we're bringing production back home, wherever home happens to be. But then what? Once we've committed resources to local production, will we ever decide that our local efforts aren't good enough? Will we ever concede that local production is too expensive and should be scrapped? That's not likely, at least not at first.

U.S. taxpayers are behind the grants and low-lost loans funding the push for U.S.-built semiconductors, so it's easy to see where the initial costs get lost in our \$5.7 trillion in annual government spending. But when it comes to staffing the fabrication plants with workers, where do we get the manpower? Do we train workers to run fabrication plants for a few years, knowing that we'll shut them down when the initial funding runs out, or do we commit to running such locations at a loss, or at least less efficiently than we could compared with foreign locations, for the sake of hardening the supply chain? And what about every other nation or consortium that does the same thing? Do all of us create redundancy for the sake of supply? What are the odds that we will create new semiconductors with interchangeable, or at least compatible, parts?

It sounds like we're clearing a path backward, where we step back from globalization to make ourselves self-reliant. We will make more stuff domestically, but it will cost more, with no gain in function or production. Looking at Rapidus and initiatives like it, it appears that other nations and companies around the world are doing the same thing. Let's hope we don't get so caught up in making things domestically that we forget the benefits of outsourcing: it costs less and gives us a good reason not to kill each other.

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Got a question or comment? You can contact us at info@hsdent.com.