



# NEWS FROM MAINSTREET

## GOODBYE MANUFACTURING



David Gladstone, Editor

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### Special points of interest:

- US manufacturing losses
- Dominance of Banking
- Our changing Middle-Class
- Gladstone Companies

In the 1980's the U.S. was considered the strongest nation on earth because we were a manufacturing powerhouse. Our dominant factory base contributed to almost 50% of all corporate profits. The U. S. was strong because we made great products. Today, the U.S. is considered strong for other reasons but it is no longer the greatest manufacturing nation.

Since 1980, manufacturing in the U.S. has declined. So much so that less than ten percent of profits from U.S. companies come from U.S. manufacturing (A pitiful percentage). These numbers will continue to decline until, we suppose, there is nothing manufactured in the U. S., China, India, Viet Nam, Cambodia and numerous other countries are the manufacturing powerhouses of today.

#### Lend Me Some Money

The biggest rise in corporate profits has come from financial institutions. From just over 20% of all corporate profits in 1980, financial profits have increased to almost 50% today. We have become a nation that lends and invests money. Big banks and financial institutions dominate the list of companies making big profits in place of manufacturing companies. The U.S. economy has moved from being driven by captains of industry to captains of lending.

#### What it means for the future

The loss of manufacturing profits outweighs any increased outprofits from financial institutions in its success



significance to our countries future. Our manufacturing facilities were our prized possessions and without these plants, the U.S. is little more than a money handling center. The U.S. has declining power in the world because it provides far fewer of the products needed by the world. Handling money is a service, and a commodity at that. What the U. S. does with money can be easily repeated by most any financial institution in any nation. Manufacturing is unique but money handling is not.

The U. S. continues to generate a balance of payments deficit caused by buying products made outside the U. S. These dollars are piling up in the treasuries of foreign nations and in the accounts of foreign businesses. These excessive amounts of dollars are being used by foreign companies to purchase our businesses and take the manufacturing back to their country.

#### Foreign Advantage

The U.S. manufacturing base is being purchased by the dollar-rich countries while our politicians continue to preach economic nonsense. The politicians say "free trade" is good for the U.S. The politicians never say free trade favors those countries that have no labor laws, those that have no laws on pollution, no laws on minimum wages, no government regulations to comply with and little or no taxes. Businesses in Asia, Africa and Latin America have few of the same restraints that U.S. businesses have. And, we have seen that in some foreign nations that do have such laws, a few bribes have sometimes allowed foreign businesses to get around them. In addition, so many of these foreign businesses have subsidies directly from the government. Without a level playing field, U.S. companies laden with rules, regulations and taxes, cannot compete against foreign competitors

# GOODBYE MANUFACTURING

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*"We all have to wonder why this is happening."*

that are free from such restrictions.

Of course our politicians have been silent. They vote for free trade bills and they vote to bind U.S. companies with more rules, more regulations, more taxes, more of everything that keeps the U.S. companies struggling to keep up with foreign competitors. The politicians make businesses fill out endless forms and records for a government that taxes businesses even more so the government can read and store the forms.

We all have to wonder why this is happening. Perhaps we should analyze it all by the standard of "following the money." How many lobbyists are there in Washington DC that are registered as lobbyists for foreign corporations, or our U.S. corporations, that are manufacturing outside the U.S.? About half of all

lobbyists represent at least one foreign manufacturer or government. And what do they do? They sprinkle money around to various political



campaigns of senators and congressmen who are running for office. They pay to get access and then they ask for favors. The favors are favors for their foreign clients. The whole process stinks.

As manufacturing continues to move outside of the U.S. and our U.S. companies continue to compete on an unfair

playing field, the U.S. will continue to decline as a manufacturer.

### Our Dollars in Foreign Hands

Other countries are benefiting from our dollar. The balance of payments is in favor of almost every nation outside the U.S. Dollars are piling up in the treasuries and banks of other nations. And what will they do with them? They are using some to buy up our remaining industries. But as a wise man said "Things that cannot go on forever have to stop." So what will those dollar rich nations and businesses outside the U.S. do with all those dollars? Only one thing left to buy... our financial institutions.▪

## WORRY WART

We heard about a 4 year old that was still sucking his thumb. His mother warned that if he didn't stop sucking his thumb his belly would swell up like a balloon. The next day the 4 year old saw his mother's friend who was 9 months pregnant. He went up to her and looked at her big belly and shouted out "I know what you have been doing!"

When we look at the incredible budget deficit and the spending by federal, state and local governments we want to shout out " we know what you've been doing!" But its not sucking their thumb but rather sucking the life out of our middle class families. The tax rate is literally shrinking the number of our middle class families.

In the 1960's most wives stayed at home to raise a family. Now it is unusual if both husband and wife don't work. In the 1960's the U.S tax rate was relatively low. Today taxes are sky high and most of the salary of one spouse goes to pay taxes. So over the last 50 years our country has required that

many middle class families have been forced to have two wage-earners go to work to support our state, local and federal government's spending. It is almost impossible for the average middle class family to have one spouse stay at home and raise their children. This is destroying the middle class families in the U.S and making child rearing almost impossible. Birth rates are down because middle class families cannot afford children. It is very sad to see the middle class in the U.S being depressed, stressed and destroyed as both spouses have to work. And we blame it all on high taxes which now takes away 40% of all the money earned by a middle-class family.

The middle class is now taxed



## WORRY WART

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more than the serfs in the Middle Ages. Serfs had to give the King (the government) only 1/3 of their crops (or 33%) not 40% as middle class families do. We continue to worry about the destruction of the middle class in the U.S. They are our smart, skilled work horses. As they become downtrodden by the burden of excess taxes caused by excessive government spending, our best work horses will just slow down and drift into an "I don't care" mental state. This is what has happened in every country with high government spending (supported by excessive taxes). It is an ugly trend.▪



*"We need two salaries to pay government taxes."*



## THE GLADSTONE COMPANIES STORY

As an investment adviser Gladstone Management Corporation manages the money of our managed funds: our business development companies Gladstone Capital (NASDAQ:GOOD) and Gladstone Investment (NASDAQ:GAIN), as well as our real estate investment trust, Gladstone Commercial (NASDAQ:GOOD). All our funds pay monthly dividends. As a registered investment adviser we seek to manage funds that generate income to pay dividends and distributions every month to shareholders.

The shares from our three entities can be purchased from most Brokerage Houses. You can find us on our many websites, all of which are listed on our website at [www.GladstoneManagement.com](http://www.GladstoneManagement.com).

Please know that we are value investors who concentrate on investing in small and mid-sized companies. We seek to invest in companies that have steady earnings that can pay our funds interest and dividends that our funds can use to pay dividends and distributions to their shareholders. This is our fundamental approach to investing the capital of the funds we manage.▪

*"We concentrate on investing in small and mid-sized companies."*

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