

DISCOURSE

What Would a Pro-Free-Market 'Industrial Policy' Look Like?

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March 7, 2024

This is the second of two essays from Robert Tracinski on the American manufacturing. Rob's [first piece](#) took issue with the notion that manufacturing in the U.S. is in decline.

In my most recent essay for Discourse, I [debunked](#) the myth that American manufacturing is “declining” or that “we don’t make things anymore.” But is there a reason other than pure 20th-century nostalgia to want to do more to encourage domestic manufacturing?

A strong U.S. manufacturing base is certainly important for national security. American [dominance in the aerospace industry](#) has obvious strategic benefits, and the pandemic reminded us that other kinds of manufacturing can be important, too. When we suddenly had to produce millions of KN95 masks to guard against an airborne infection, we regretted having to rely on China for their supply. Moreover, we should encourage growth in manufacturing for the same reason we encourage growth in general—to enjoy even greater wealth and progress and enjoy it sooner.

Yet advice for how to encourage manufacturing usually comes from advocates of “industrial policy”—a euphemism for “central planning”—whose main instruments are tariffs and subsidies that cost [far more money per job](#) than they create. Or it is the domain of grandstanding politicians who boast about [illusory deals](#) that produce more photo ops than finished goods. If we actually want more manufacturing, we have to look at the conditions required for it to grow from the bottom up, not from the top down.

Fantasy VS. Reality

If national security is our main concern, what matters is not just the U.S. manufacturing base, but the *allied* manufacturing base. We can still take advantage of the benefits of trade, but emphasize trade with countries that share our interests and won’t seek to undermine us in a crisis. This kind of “[friendshoring](#)” is already occurring naturally. The massive pandemic lockdowns in China drove away some Western companies, while the war in Ukraine reminded them of the prospect that their supply chains could get caught up in wartime sanctions. While it may be too expensive to bring all manufacturing back to the U.S., it makes sense to move it to countries that have some of the same advantages as China, without the geopolitical risk.

This is actually how we have always done things, even during the heyday of manufacturing in the U.S. American manufacturing has never been an island. At the height of its dominance, it was always connected to a global web of suppliers and parts-makers. Leonard Read’s classic primer on economics, “[I, Pencil](#)”—written in 1958—describes how the production of a humble pencil

depended on parts and materials gathered from Italy to Indonesia. If that's what made American industry great the first time around, why not embrace it now?

In addition to encouraging friendshoring, we also could increase domestic manufacturing by welcoming more immigrants. Despite the doom-mongering of the "industrial policy" crowd, America is a high-income country, and this means that most native-born workers can reasonably expect to be paid well. The result is that American manufacturing tends to be high-skilled, while manufacturing that depends on cheap labor has to go elsewhere. Or, low-skilled manufacturing could come back to America but employ low-skilled immigrants. This also has a long history in the U.S.

A recent book, "Making it in America," laments how difficult it is to start a manufacturing business in America, but along the way, it becomes clear that most of the American workers in its factory—an apparel maker in Maine—are *new* Americans. Then again, who do you think was working in all those old factories from the heyday of American manufacturing? They included a big cohort of first- and second-generation immigrants. My grandfather, who worked a manufacturing job in the 1940s and '50s—the classic era of American manufacturing dominance—was also the first in his Polish immigrant family to be born in the United States. His counterpart today is most likely in a family from Latin America or Asia instead of Eastern Europe.

Just as important is the need for highly skilled immigrants, particularly people with the skills to take the estimated 2.1 million jobs in manufacturing that might go unfilled by 2030. Connor O'Brien of the Economic Innovation Group points out that immigration has always played a vital role in industrial history. Japan began its economic rise by hiring hundreds of Western experts to supervise construction of whole factories. The dominance of the post-war U.S. aerospace industry is due in part to Operation Paperclip, which snapped up German scientists and engineers at the end of World War II.

In that tradition, O'Brien has helped draft a proposal for a "chipmaker's visa." A Taiwanese chipmaker recently announced it was delaying the construction of a new semiconductor factory in Arizona because of a shortage of specialist workers. It's a problem that could be alleviated by handing out a whole lot of green cards.

Of course, many of the people who have been howling about the "hollowing out" of American manufacturing are the very same people who are also opposed to immigration. That raises a question of priorities. If they really care about having a stronger American manufacturing base, they would be willing to build it the same way we did it back in our heyday: with trade and immigration. Or are they only interested in U.S. industry so long as it conforms to a historical fantasy of nativism and autarky?

The Long Smokestack

Speaking of a shortage of specialist workers, this is another key weakness of attempts to stimulate manufacturing through subsidies. We found this out during the recent round of massive new infrastructure spending bills. You can throw as much money as you like at new construction,

but it won't get results unless you have the skilled workers to do the job—and America currently has a massive shortage of skilled workers.

Among other things, this would require revamping the schools. There is a growing consensus that America made a mistake in downgrading “shop class” and pushing all young people toward college. College graduates are still only about a third of the population, so what happens to the other two-thirds? They often leave high school with no marketable skills, even as employers are complaining that they can't find enough welders or electricians. So why not make sure everyone leaves high school knowing how to weld, or perform some other form of skilled labor?

The lesson of the pandemic and the big stimulus packages has been distilled by the “supply-side progressives,” who discovered—well, it's new to them, at least—that there's no point subsidizing what you can't produce. You can write a lot of checks, but that's not the same as getting things built.

They have drawn attention to the need for permitting reform, particularly focusing on NEPA, the National Environmental Policy Act, which requires extensive environmental impact reviews and gives activist groups the ability to file lawsuits that add years of delay. The peculiar paradox of NEPA is that it only applies to projects that receive federal funding—which means that the more the government subsidizes a project, the *less* likely it is to get built. Similarly, a pioneering zoning reform in Minneapolis—which increased housing supply in the city by 12% and kept rents flat while they soared nationwide—has been put on hold by a federal judge in response to an environmental lawsuit.

This kind of regulatory drag suppresses housing, suppresses infrastructure, and of course, it suppresses manufacturing. You can't hire factory workers if you can't build the factory—or if the workers can't find affordable housing, or if you can't build highways, rail lines, power plants and other infrastructure manufacturers need.

The power plants are particularly important. Where I live in Central Virginia, Amazon recently announced plans to build two massive data centers. One of them will be built right next door to the North Anna Nuclear Power Station. You get the idea: The electrons will come fresh and piping hot out of the reactor and straight into the data center. Like the servers for a data center, most manufacturing operations are hungry for energy. But North Anna's Units 1 and 2 went online in 1978 and 1980—more than four decades ago. Units 3 and 4 were planned but never built. In the entire United States, only two new nuclear power plants have come online in the last 30 years. How many factories might have been built next door to the nuclear power plants that were killed in their planning stages by regulators and activists?

Electric cars are sometimes described as having a “long tailpipe,” which goes from the charging station all the way back to the fossil fuel-powered generating station that produces the electricity. Global manufacturing has a long smokestack that goes all the way to China, which has been building the power plants we haven't. The same goes for infrastructure, and also for mining. Geologists recently discovered massive new domestic deposits of lithium, a vital ingredient for high-powered modern batteries. But we're still dependent on Chinese batteries because digging

up our domestic sources faces strong political opposition, often by the same environmentalists who say they favor the widespread adoption of electric cars.

No, we don't need to be like China, where a dictatorship's contempt for individual lives, manifested in rampant official corruption and the suppression of all dissent, allows them to mine and refine minerals with complete indifference to health and safety. But we need something more reasonable than the NIMBYism and environmental hysteria that causes us to outsource our production to China.

A Cautionary Tale

So far the measures I have suggested for increasing U.S. manufacturing are: friendshoring, immigration, vocational training, permitting reform and regulatory reform in general. The final thing we can do is to embrace free trade. This may seem counterintuitive. Isn't foreign trade what's taking away manufacturing jobs? In reality, foreign producers are also suppliers for our manufacturers. When we imposed new tariffs to protect domestic steelmakers, for example, it turned out that many times more workers *use* steel than those who *make* steel. So a small minority benefited—at a cost to the majority of American manufacturers.

The Cato Institute's Colin Grabow, whose invaluable report on manufacturing I quoted in my previous article, pointed me to the ultimate cautionary tale on industrial policy: the Jones Act. The Jones Act dictates that any shipping between two U.S. ports must be done on ships that are built, registered, owned and crewed by U.S. citizens. It's a classic bit of protectionism, meant to support our domestic shipbuilding industry.

I hope you are not surprised to discover that it has instead helped kill the U.S. shipbuilding industry. That's because American shipbuilding would benefit from producing some of its components more cheaply overseas and then assembling them here, as U.S. automakers do. But the Jones Act's requirements prevent this, so all shipbuilding that is not purely for domestic routes is now done entirely overseas.

Meanwhile, by making shipping between U.S. ports more expensive, the Jones Act also hurts other forms of domestic manufacturing. Grabow points out that New England imports natural gas from overseas, including Russia, because while gas is plentiful in the U.S. it's too expensive to ship it from American producers. Likewise, manufacturers on the West Coast have found that it's less expensive to ship steel from China than to ship it on Jones Act-compliant vessels from steelmakers on the East Coast. And the problem goes the other way, too. American scrap steel is shipped to Turkey to be melted down and re-used, more cheaply than it can be shipped for re-use in the U.S. Grabow sums it up: "Basically, it's a tax on domestic commerce."

The Jones Act is one of the classic examples of a bad policy that can't be repealed because its benefits are concentrated—it has the support of a small but highly committed lobby—but its much greater costs are widely distributed across the country, so that no one has yet formed an equally dedicated lobby against it.

More widely, this is a cautionary tale about the results of thinking we can regulate and restrict ourselves into growth. That's why any government manufacturing policy that actually works will

focus on clearing away the artificial barriers erected by the very same government and allowing a bottom-up manufacturing revival to take shape on its own.