

THE WALL STREET JOURNAL

The Myth of a U.S. Manufacturing Decline

By Dan Ikenson
June 4th, 2014

Do you anticipate a major manufacturing revival in the U.S. – why or why not?

DAN IKENSON: If what is meant by manufacturing “revival” is a sector that once again supports nearly 20 million jobs, as it did at its peak in 1979, or accounts for 28% of the U.S. economy, as it did at its peak in 1953, the answer is, thankfully, an emphatic “no.” If “revival,” however, is defined as continued growth in value-added output, revenues, foreign investment, research and development expenditures, capital investment, and productivity, the answer is a near-certain “yes.”

Many who opine about manufacturing seem to yearn for the past, but let’s hope the sector doesn’t backslide to 1979’s level of relative inefficiency, when the average U.S. worker produced \$28,000 of value added annually—less than one-fourth as productive in real terms as today’s \$170,000 annual per worker value added. Nor should we hope for the economy to be as dependent on manufacturing as it was in 1953. Though the real value of U.S. manufacturing output has increased more than sixfold since 1953, U.S. consumers spend twice as much on services than on goods, today, and 90% of the American workforce is employed outside manufacturing.

The term “revival” implies that U.S. manufacturing is on a downward trajectory. But the \$2.1 trillion of U.S. manufacturing value added in 2013 was a new high—in real terms. Indeed, if U.S. manufacturing were its own country, it would be the world’s 10th largest economy, just after Russia and before India. Excluding cyclical recession years, U.S. manufacturing sets records almost every year with respect to value added, revenues, exports, imports, profits, and returns on capital. Yet the myth of manufacturing decline persists like a chronic medical condition.

As of 2013, nearly \$1 trillion of foreign direct investment was parked in U.S. manufacturing, by far the number-one manufacturing investment destination world-wide. Clearly, the most successful foreign-headquartered companies see a future for U.S. manufacturing. Their revealed preferences for investing in America should count for more than the tales of woe spun by those who petition Washington for protectionist outcomes.

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