August 20, 2009, 4:00 a.m.

Manufactured Objections

The *Washington Post*'s Harold Meyerson is wrong on trade.

By Daniel Ikenson

During the past few years, America has grown increasingly averse to trade. This trend is the product of myths perpetuated by campaigning politicians, captured policymakers, TV charlatans, and woefully ill-informed newspaper columnists. Harold Meyerson always comes to mind as emblematic of this last category, so his fallacy-laden diatribe about the decline of U.S. manufacturing in Wednesday's *Washington Post* is par for the course.

Meyerson makes a few claims that cannot be allowed to stand. For example, he asserts: "We don't [make things] any more — at least, not like we used to. Since 1987, manufacturing as a share of our gross domestic product has declined 30 percent."

First of all, note that Meyerson's second sentence does nothing to support his first. A decline in the manufacturing sector's share of the total economy can result from growth in other sectors, rather than from a decline in total manufacturing output, and that's what's happening in the U.S.

According to data from the *2009 Economic Report of the President*, as gathered and reported recently by George Mason University economics professor Don Boudreaux, since 1987, real U.S. manufacturing output has increased by 81 percent. And as reported by the Bureau of Economic Analysis, American real manufacturing value-added — the market value of manufactured goods, over and above the costs that went into their production — reached a record-high level in 2007 (the last year for which final data are available), breaking the record set in 2006, which broke the record set in 2005, which broke the record set in 2004. Notwithstanding the recent recession that has affected all sectors of the economy, U.S. manufacturing has been thriving in recent years.

If Meyerson isn't intentionally misleading *Washington Post* readers, he is simply unqualified to be rendering conclusions about the state of manufacturing. A basic look at the history of the statistic he used shows its uselessness to the point he wants to make. Manufacturing as a share of gross domestic product peaked in 1953 at about 28 percent of the economy — well before the period of U.S. industrial prowess Meyerson yearns for — and has been trending downward ever since. Today manufacturing accounts for about 12 percent of our services-dominated economy, but manufacturing output and value-added are higher than ever in real terms.

Second, if the United States doesn't "make things anymore," nobody does. According to data from the United Nations Industrial Development Organization, U.S. factories are the world's most productive, accounting for 25 percent of global manufacturing value-added. By comparison, Chinese factories account for 10.6 percent.

That may be hard to fathom, given that U.S. factories tend not to produce the sporting goods, toys, tools, and clothing found in Wal-Mart and other retail outlets nowadays. But U.S. factories make pharmaceuticals, chemicals, technical textiles, sophisticated components, airplane parts, and other products. American factories have moved up the value chain.

Contrary to this last point, Meyerson asserts, “The long-term decline of American manufacturing has depleted our high-tech, cutting-edge industries as much as it has our more venerable sectors.” To support his claim, he cites the value of our “high-tech” exports falling behind China’s beginning in 2004. By “high-tech,” Meyerson means computers, iPods, and other consumer electronic gadgets so ubiquitous nowadays. But in reality, the percentage of Chinese value-added in these so-called high-tech exports is quite small. Economists at the U.S. International Trade Commission estimate that only about 50 percent of the value of U.S. imports from China is actually Chinese value-added; the rest is value added in other countries and embedded in the components, design, engineering, and labor.

For iPods, the Chinese value-added is a few dollars on a product that costs $150 to produce and retails for $299. So, as China’s “high-tech” exports leave America’s “in the dust,” their sale in the United States and elsewhere supports high-paying American engineering, marketing, and logistics jobs, while providing Apple with the profits to conduct R&D to employ more engineers and keep the virtuous circle going.

The factory floor has broken through its surrounding walls and now traverses borders and oceans. What we have now is a world in which it is no longer “Us versus Them,” but rather “Us *and* Them,” a formulation that has been helping U.S. manufacturing to thrive. Without complementary Chinese and other foreign labor, far fewer American manufacturing ideas would come to fruition.

American manufacturing is by no means in decline. What should be is Meyerson’s myopic way of seeing things.

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