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Is Manufacturing Employment the Only Thing That Counts?

Daniel R. Pearson

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The Trump administration seems obsessed with stemming the downtrend in the number of U.S. factory jobs. Posted on the White House website is a statement called "Trade Deals That Work For All Americans." Among other things, it asserts that "blue-collar towns and cities have watched their factories close and good-paying jobs move overseas, while Americans face a mounting trade deficit and a devastated manufacturing base."

It's true that employment in U.S. manufacturing facilities has been sliding. The Bureau of Labor Statistics reports that the number of factory workers peaked in 1979 at 19.4 million and has fallen to 12.3 million today. Sounds like a textbook example of a sector in decline, right?

Well, it depends on the perspective. Let's compare with another sector — agriculture — that has gone through a major structural adjustment. Employment on U.S. farms peaked around 1910 at 11.8 million, which accounted for 31 percent of the entire U.S. workforce. Since then the number of farm operators and hired workers has declined precipitously to somewhere in the neighborhood of 2.5 million people, or 1.6 percent of total employment.

Does U.S. agriculture represent a failure because it now employs only a fraction of its former workforce? Hardly. Mechanization and sophisticated production techniques for crops and livestock have greatly boosted agricultural productivity. Fewer farmers now produce much more output. The United States has become the world's largest agricultural exporting country. The employment trend in farming may well continue downward, but the trend toward greater agricultural innovation is rising. American agriculture is an irrepressible success story.

Now, back to manufacturing. Even though factory employment has fallen, the economic value added by the sector has continued to rise. According to the Bureau of Economic Analysis, the

United States set an all-time record for value added in manufacturing in 2015 of $2.2 trillion. Value added in manufacturing has risen every year since the recession ended in 2009. The United States is a competitive producer of a wide range of factory products, and ranks third as a manufacturing exporter behind China and Germany.

Given that the sector is growing year by year and is a major exporter, has the manufacturing base really been — in the words of the White House — “devastated”? An unbiased observer likely would conclude instead that — as in agriculture — fewer workers are doing a fine job of producing more goods of higher value.

Has the downtrend in manufacturing employment been driven primarily by globalization? No. An analysis in 2015 by the Center for Business and Economic Research at Ball State University showed that trade has, indeed, had a modest effect on manufacturing employment. The study found that roughly 13 percent of manufacturing job losses between 2000 and 2010 were due to international competition.

The other 87 percent of the decline, though, has come from greater automation — robots and computers are reducing the number of workers required on factory floors. Just as in farming, productivity gains allow manufacturing employees to generate far more output than in the past. Many people would see this as progress.

The White House apparently sees imported goods as the enemy of U.S. manufacturers. The situation is rather more nuanced. Some imports may take sales away from U.S. manufacturers, potentially reducing their profitability and leading to layoffs. However, half of all imported goods are used as inputs by U.S. manufacturers. Cross-border supply chains serve to strengthen the U.S. manufacturing sector. They allow labor-intensive components to be made overseas, while more highly skilled operations are carried out in this country. So instead of undermining the manufacturing economy, imports have helped it to remain competitive and to grow.

Finally, it’s important to view manufacturing employment in the context of the broader U.S economy. The Bureau of Labor Statistics reports that 152 million people now are employed in the United States, more than at any time in history. That number has grown since 2009 by 14 million people, an increase of 10 percent. The 12.3 million factory workers constitute an important portion — 8 percent — of overall employment.

As long as the economy is growing, employment can be expected to grow along with it. This is reassuring. If manufacturing employment continues its gradual decline, other jobs should become available elsewhere in the economy.

Those who seek to prevent further reductions in manufacturing employment would be well advised instead to embrace the sector’s ongoing evolution, and to focus on helping displaced factory workers make successful transitions to other careers.

The U.S. manufacturing sector is alive and well. It generates greater economic activity than ever before. Its workers are, on average, better educated, better paid and use more-advanced equipment. The decline over time in output of shirts and shoes has been more than offset by increased production of airplanes and other high-value items. There is a lot of good news in manufacturing.

Daniel R. Pearson is a senior fellow at the Cato Institute and the former chairman of the U.S. International Trade Commission.