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Manufacturing Never Left

By: Dan Ikenson, Director of Herbert A. Stiefel Center for Trade Policy Studies – June 13, 2013

The myth of U.S. manufacturing decline is one of the grandest economic deceptions of the 21st century, concocted and perpetuated by champions of trade restrictions and industrial policy, and thrust upon a public by a media that peddles in nostalgia for “The Greatest Generation” and sentimentality for “when times were simpler.”

So passively entrenched is the conventional wisdom that manufacturing vacated our shores long ago, chasing lower wages and lax labor and environmental standards in poor countries, that news of a few companies returning some production stateside is dubbed—by those same conventionally wise—a manufacturing “renaissance.”

The fact is that manufacturing never left. Year after year, every year (with the exception of during formal economic recessions), the U.S. manufacturing sector has set new records with respect to output, value added, revenues, exports, and imports, and almost as frequently it sets new records for profits and returns on investment. With a stock of \$838 billion, the U.S. manufacturing sector attracts more foreign direct investment than any other single country, which is hardly symptomatic of decline.

The metrics routinely and mistakenly cited as evidence of decline are manufacturing employment, which peaked in 1979 at 19.4 million workers and manufacturing’s share of GDP, which peaked in 1953 at 28.3%. But the decreases in neither reflect poorly on industry. Producing more with less, which is essentially the story behind manufacturing job attrition (and before that agriculture) is the answer to the essential economic problem of scarcity. The fact that manufacturing as a share of GDP has been shrinking for 60 years speaks not to declining manufacturing health, but to the rise of services, on which Americans spend more than double their expenditures on manufactured goods.

Regardless of wages in China and natural gas in Pennsylvania, manufacturing will always exist in the United States. For it to really thrive, policymakers should reform the rules and regulations that raise the cost of doing business in the United States.

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