MAKE IT IN AMERICA—
manufacturing comeback is a must not a myth

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In her September 9, 2022 column, *The Myth of a Manufacturing Comeback*, Washington Post columnist Catherine Rampell lent her substantial editorial support to a notion that, despite the absence of any concrete or theoretical evidence, has gained widespread acceptance among Anglo-American economists.

It is the idea that while manufacturing may once have been the main driver of U.S. economic growth and technological leadership, it no longer plays that role and cannot do so in the future. It is important to emphasize that European and Asian economists and business leaders do not share this view of the dying power of manufacturing. But that does not caution American commentators like Rampell from undercutting the significance of manufacturing.

In a recent speech, President Biden said: "Make it in America is no longer just a slogan; it's a reality in my administration. He added: "it is finally bringing home jobs that have been overseas for a while." He was, of course, referring to recent legislation and administrative actions that have resulted in announcements of new factories being built in the United States to produce semiconductors, electric vehicles, fiber optic cables, and batteries.

Not very significant, say Rampell and many members of the Brotherhood of Economists. In the first place, they argue, America never stopped making things and still does make a lot of "stuff". In fact, in terms of actual products made, they say America manufactures as much now as it ever did.

This may be true, but it is irrelevant. Comparing what the U.S. manufactures in absolute terms today to what it manufactured ten, twenty, or thirty years ago is meaningless. The overall economy is much larger today than it was in the past. The proper comparison is the percent of GDP manufactured in the U.S. today to what it was in the past. The numbers are dramatically clear. In the 1960s, manufacturing accounted for about 25 percent of U.S. GDP. Today it is about 11 percent. On the one hand it is true that manufacturing as a percent of GDP has declined in all manufacturing countries over the past sixty years. But in Germany it is still 18 percent, Ireland is 35 percent, Italy is 15 percent, Japan is 20 percent, Korea 25 percent, Switzerland 18 percent, and Taiwan 31 percent. These are not developing countries and the United States has not kept pace with them in manufacturing.

At a second level, the Rampell and economists argument turns to employment and makes the point that manufacturing has been automated over the years and employs many fewer workers than in the past to make the same amount of goods.

This is, of course, true, because manufacturing has become ever more efficient with ever rising productivity. But it is only

relevant if you think that the main purpose of making things is to create jobs.

It's NOT. I repeat, NOT. Rather, it is to create wealth. Would we not all prefer to have one big, all-encompassing machine that would do all the production while relieving all of us of the necessity to work and do things not because we want to but because we have to? High productivity creates wealth. Manufacturing creates more per capita wealth than mining, agriculture, banking, retailing or any other undertaking. In fact, we don't really want to create jobs. Fundamentally we want to create wealth. It is from wealth that power, freedom, and influence arise - not from jobs. Of course, our leaders like President Biden talk a lot about creating jobs because we have not yet found a direct way to create wealth. So we are still burdened with the necessity of creating wealth through doing jobs. But the more wealth we can create without creating particular jobs, the richer and freer we will be. Manufacturing comes closer to doing this than any other industry. Therefore, Rampell and all of us should want as much manufacturing as we can possibly get.

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Consider an example. The CHIPS act, recently enacted into law, will result in Intel (leading U.S. semiconductor maker) establishing two new semiconductor fabrication factories in Ohio. They will create about 3000 direct jobs and about 7000 indirect jobs and these jobs will pay about $135,000 annually. In a year, that comes to about $1.4 billion. This is roughly about what 35,000 Amazon drivers would take home. Clearly the tax take from the Intel workers will be far above that of the Amazon workers. Which would you rather have in your state - Amazon drivers or Intel technicians. The question answers itself.

Look at it another way. It is clear that technology and its development is a key element of future economic development and that development of cutting edge technology requires investment in R&D. Intel spends about $20 billion annually on R&D. I am not sure what Walmart, or Goldman Sachs, or the Boston Consulting Group spend on R&D annually, but I am sure that it is nowhere near what Intel spends or even what Ford Motor or Nucor Steel or other major manufacturers spend. In fact, manufacturing industries as a whole account for over 62 percent of total U.S. R&D spending. Since the U.S. government accounts for about 23 percent of U.S. R&D spending and colleges and universities spend significant amounts, it is clear that all the services industries Rampell and the economist tribe are promoting spend very little on R&D and thus are investing virtually nothing in the future.

Finally, the United States trade deficit (technically current account deficit) is about $1 trillion annually. That means we buy from foreign providers $1 trillion more than we sell to them. That deficit has been rising steadily for nearly fifty years. The foreign countries and their citizens who accumulate these dollars, use them to buy U.S. Treasury bonds or U.S. real estate, or U.S. corporations which then make payments to them of rent, interest, and dividends. The U.S. is now annually paying out immensely more every year to foreign holders of U.S. assets than foreign countries are paying to U.S. holders of foreign assets. In effect, America is selling the farm. It is a big farm, and there is a lot of selling left in it, but this is not a situation that can endure indefinitely. At some point, the United States will have to balance these flows.

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