



## *Hard truths and tough love for the American economy*

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Despite the robust economic recovery, populists – Republican and Democrat alike – are aligned in harping on the trade deficit and the alleged hollowing out of America’s manufacturing sector. They are infuriated and exasperated that, in their view, the United States doesn’t make things anymore; that we cannot compete and that we need to bring back and add more manufacturing jobs while wiping out our deficits and producing surpluses.

The reality is that the likelihood of all those off-shored jobs returning to the U.S., adding more manufacturing jobs, turning deficits into surpluses and globalization withering away is about the same as AOC being elected president of the NRA or Donald Trump being offered a part-time job as a fitness instructor.

**The American manufacturing sector is strong, it just looks different.** The idea that the American manufacturing sector has been gutted is nonsense. What has been occurring for over two decades now is that manufacturing has become more capital and knowledge-intensive rather than heavy industry-based and labor intensive.

Most Americans are unaware that manufacturing output has grown over the past three decades even as payrolls have shrunk. Today, far fewer workers are needed to turn out even greater amounts of production. According to a Brookings Institution research study, disruptive technologies like additive manufacturing, 3D-printing, advanced robotics and the utilization of the Internet of Things and Big Data are revolutionizing U.S. manufacturing. This has not only increased levels of productivity but also made the United States one of the most attractive locations for high-technology manufacturing firms.

**Offshoring and nearshoring are an unstoppable trend.** These are done not to shaft American workers but to increase productivity and efficiency and make goods and services more affordable for American consumers (that “special interest group” that somehow is always left out of discussions on trade issues). Should German auto workers protest that Volkswagen, Mercedes-Benz and BMW produce vehicles in the U.S., employing over 50,000 Americans, or Japanese auto workers complain that the Lexus RX-350 is made in Ontario, Canada, and the Lexus ES350 in Georgetown, Kentucky? And let’s not forget that offshore and nearshore production sites and services operations use American-made technology and components for their operations.

**Jobs that have moved overseas are not coming back.** Companies do not drop suppliers, let alone re-shore, unless cost, quality, reliability and timeliness force them to do so. And as business grows at an accelerated pace in emerging markets, firms in certain sectors such as consumer-packaged goods that experience steadily high growth in those markets will seek to source more of their production locally. Moreover, they will acquire local and even multinational competitors in these markets, such as Nestlé’s acquisitions in high-growth food categories including baby food (Gerber), pet food (Purina) and frozen pizza (from Kraft). Fold in the factor of labor-substituting technology – a worldwide phenomenon – and one can readily see why this trend is not likely to reverse.

**The trade deficit, like the national budget deficit, is not going away.** The strong dollar makes foreign products cheaper while consumers have more income to buy goods from abroad, so one can expect trade deficits to remain a feature of the national economic landscape for the foreseeable future. While the current trade deficit is \$679 billion (less than 3 percent of GDP) that figure represents merchandise trade only. Therefore, government reporting of trade numbers is misleading and inaccurate. The U.S. actually runs a trade surplus in services of nearly \$300 billion and the financial account (foreign investment flowing into the U.S.) of over \$180 billion.

Bluntly stated, obsession over a manageable trade deficit is unwarranted. Moreover, given the massive demand for U.S. financial assets and cheap foreign borrowing, a U.S. trade surplus could, in fact, lead to lower global growth worldwide.

The hard truth is that a large swath of America – politicians and their constituents alike – need to stop whining, face reality and get in there and compete more vigorously. Yes, we are competitive, but we do not need to be #1 in everything. Like a decathlon champion, we need to rack up the highest overall score. And this is where innovation comes in. As noted in “Competing in the Next Economy,” a policy report by the Council on Competitiveness, “The bottom-line is simple—to compete in the next economy requires playing a new innovation game, one whose goal is to boost U.S. innovation tenfold.”

And that game will require public policies that further open the gates for foreign students and professionals in STEM, investors and immigrant entrepreneurs; that significantly increase investment in R&D; that boost university research, both basic and applied; and that broaden offerings in vocational and technical education, including coding academies, work-study and apprenticeships.

The emergence from the COVID-19 pandemic along with a notable economic recovery provide an extraordinary opportunity for the nation to power up our national competitiveness. Time is of the essence.

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