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Obama Keeps Fueling the Myth of Manuafacturing

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Editorial: Obama keeps fueling the myth of manufacturing

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President Obama loves manufacturing. In his State of the Union address, his discussion of the economy began with the decline of American factory jobs and lauded the bailout of Chrysler and General Motors. Like all such speeches, he offered a scattershot of policies, but the need to support manufacturing through subsidies and the tax code was a major theme.

The focus is odd. Manufacturing accounts for a little over 10 percent of U.S. GDP, which means that the vast bulk of the economy takes the form of services and other non-manufacturing jobs. Why then does manufacturing enjoy such pride of place in President Obama's economic cosmology?

There are cynical answers. Unions provide the backbone of the Democratic Party. Since it peaked as Truman left office, private sector union membership has been in steady decline, and today public sector employees dominate the labor movement. To the extent that life remains in the private sector unions, however, it is concentrated in manufacturing.

When President Obama holds up a unionized lock-making plant in Milwaukee as an example of America's hope for the future, however, he's doing more than rewarding his political friends. He's also playing on two powerful myths, one recent, one ancient, and both false.

The recent myth is that the long, post-war boom was driven by unionized manufacturing jobs. These jobs provided a relatively high-income for relatively low-skilled workers, which led to widespread and sustained prosperity. The problem with this myth is that private sector unionization peaked in 1953, long before the post-war boom began to sputter in the mid-1970s; and even in the 1950s, manufacturing accounted for only about 27 percent of GDP.

The older myth is that manufacturing creates wealth, while services and other forms of economic activity are parasitic on real workers who make real things. The idea goes back at least to the Middle Ages, when the church condemned non-manufacturing occupations like money lending as parasitic while extolling the economic virtues of peasants and craft guilds.

The problem with this myth is that wealth does not come from the piling up of more stuff, as anyone who has watched A&E's "Hoarders" should realize. Wealth comes from improving the quality of people's lives. Sometimes this means more stuff, but more often it means finding better ways of doing things.

Consider Turkmenistan, where, unlike in the United States, manufacturing accounts for nearly 40 percent of GDP. It's hardly an economy to envy. In China, on the other hand, a rising proportion of the economy devoted to services has marked the boom of the last generation. In Hong Kong, one of the most prosperous places on the planet, manufacturing has fallen from over 20 percent of the economy to about 5 percent in recent years.

Whether motivated by nostalgic — and incomplete — memories of post-war prosperity or older ideas that wealth comes from the production of things, the myth of manufacturing's cosmic significance is dangerous.

President Obama endorses taxes and subsidies based on the assumption that the ideal level of manufacturing in the U.S. must be higher. He wants the government to push capital around the economy in search of some nostalgic past of happy factory workers, regardless of whether that is the best use of the money.

Turkmenistan, however, is not an economic ideal. In the end the real goal of economic policy should be the creation of wealth, and the vast majority of wealth does not come from making things. Economic policy needs to be based on that reality, not myths about manufacturing.

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