# Economic Policy Institute

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## Good Policy Could Halt Manufacturing Job Losses

Why have U.S. manufacturing jobs fallen to the lowest point since 1958? A new study shows our rising trade deficit since 1998 plays an important role in manufacturing job loss. It also illustrates how manufacturing job losses can be reversed with proper government action**.** ***Shifting blame for manufacturing job losses: Effect of rising trade deficit shouldn't be ignored,*** by Josh Bivens, and released today by the Economic Policy Institute, debunks claims that manufacturing jobs are gone for good, as some have argued, due to high productivity growth combined with lack of consumer demand.

Observers claim that manufacturing job loss is caused by a combination of rapid productivity and falling demand for manufactured goods. This study shows that these factors only explain a portion of the total loss of jobs in the manufacturing sector and that the trade deficit accounts for the loss of 59 percent of U.S. manufacturing jobs.

Demand for manufactured goods outstrips domestic production, with an enormous surge of imports filling this gap. This growth spurt in net imports of manufactured goods defines the U.S. trade deficit and accounts for the loss of 1.78 million U.S. manufacturing jobs since 1998, the year the U.S. economy began shedding manufacturing jobs. Compared to rapid productivity growth combined with changing demand patterns, this trade deficit is the primary driver of manufacturing job loss.

"There is nothing desirable, sustainable, or irreversible about the current enormous trade deficits in manufactured goods that the U.S. currently carries. Government action could put people back to work in well-paying manufacturing jobs," said EPI economist Josh Bivens.

The Congressional Budget Office and others have pointed to the declining share of manufacturing output in total GDP as an indicator of falling consumer and business demand for manufactured goods. This is the wrong comparison. The share of manufactured goods *purchases* (manufacturing output plus manufactured net imports) as a share of *all* purchases (GDP plus total net imports) has actually remained quite stable over the past 10 years. More and more of this demand, however, is being satisfied through imports rather than domestic production.

**Government policies could reverse manufacturing job loss**

Government policy could encourage the dollar's value to decline, thus making U.S.-manufactured goods more competitive in the U.S. and on the world market. The U.S. should enter negotiation with China, Malaysia, and Taiwan, which account for 30 percent of the total U.S. trade deficit, to revalue their artificially low currencies. Negotiations are mandated under U.S. trade law when countries keep currencies artificially low by accumulating large reserves of U.S. dollars.

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Until the trade market playing field is level, the federal government should take steps to support U.S. manufacturing firms, not abandon them. Since these firms are more likely to have retiree benefits, the federal government should pick up some of the legacy costs for retiree health and pension benefits.

**For more on the U.S. trade imbalance:**

EPI released an article on this topic yesterday, ***Insourced investments lead to imbalanced trade***, showing that in addition to its failure to promote job growth, insourcing has also worsened the U.S. trade balance. The issue of outsourcing has become one of the most fiercely debated topics in the current political climate. A growing group of politicians and pundits are using the term "insourcing" to refer to foreign companies' investments in the United States, suggesting that insourcing has the opposite effect on U.S. jobs and trade as offshore outsourcing. For more on insourcing’s impact on the trade balance, see: http://www.epinet.org/content.cfm/webfeatures_snapshots_04072004

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