Don't Write Off the Manufacturing Renaissance Just Yet

Some recent reports and commentary claim a manufacturing renaissance is just hype. Goldman Sachs, Morgan Stanley and other financial firms have cast doubt on optimistic claims about the revival of manufacturing in America. And, almost on cue, recent economic indicators show manufacturing activity and employment lagging, providing plenty of fodder for doubters.

But do not write off a manufacturing renaissance. We believe the long-term prospects for manufacturing are bright. The sector should continue to grow, benefiting from strong growth in exports, lower energy costs, an improving housing market and increases in consumer spending—as long as the federal government does not harm our sector.

Manufacturing Is Poised for a Renaissance

Manufacturers are making investments in the United States. Looking specifically at foreign direct investment in manufacturing, the Bureau of Economic Analysis reports a rise from $476.5 billion in 2001 to $838.3 billion in 2011. New data for 2012 are unavailable, but we suspect the number is higher.

The boom in energy markets has spurred new investments by manufacturers, with many taking advantage of lower feedstock costs. The American Chemistry Council, which represents the chemical industry, reports that businesses have announced 97 projects representing a cumulative investment of $71.7 billion over the past two years.

Many of these investments could take years before they are fully operational, so the direct economic benefits, such as new jobs or increased production, will not be immediately apparent. Shale gas development could lead to approximately 1 million additional manufacturing jobs by 2025, according to a study by PwC and the National Association of Manufacturers.

Global economic conditions are also making the United States a more attractive platform for exports. In fact, manufacturers based abroad are investing in the United States—not simply to serve domestic markets but also as a base for exports.

But Manufacturers Need the Right Policies

Current economic conditions in the United States, however, are full of uncertainty, largely due to policies made in Washington. The United States erects a number of barriers that deter investment. Without a comprehensive, pro-growth overhaul of U.S. economic policies, manufacturing will never achieve the renaissance that many envision. Such policies include the following:

- Getting our long-term fiscal health in order to end uncertainty related to tax and regulatory policies
- Reforming the tax system to make the United States more attractive globally for investment
- Moving toward a regulatory environment that effectively balances the trade-offs between

benefits and costs and includes the participation of the manufacturing community

- Increasing trade opportunities to boost export sales to new foreign markets
- Addressing the skill needs of the manufacturing community so they have the talent needed to meet additional demand and offset retiring workers

With pro-growth initiatives such as these and a stronger global economy, manufacturing will rebound. However, if Washington harms our opportunity to create jobs, manufacturing's doubters could very well be proven right. Falling energy prices in the United States and rising production costs overseas aren't enough to bring about a manufacturing renaissance. They cannot overcome the many obstacles to competitiveness that manufacturers face due to U.S. policy.

The conditions are right for a manufacturing renaissance, but policymakers must act before this unique moment in history passes our nation by.