

US Manufacturing Needs Policies That Harmonize With Natural Market Forces to Flourish

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Workers put engines on the frames of Ford Motor Company fuel-powered F-150 trucks under production at its plant in Dearborn, Mich., on Sept. 20, 2022. Jeff Kowalsky/AFP via Getty Images



By Mark Hendrickson

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Commentary

President Donald Trump has lamented the loss of manufacturing jobs in the United States, and has rhapsodized about a new golden age for

American manufacturing. As much as we might miss “the good old days,” it is never easy to turn back the clock. Today’s populists should heed the lesson from the failed experiments of socialism that top-down central planning falls far short of accomplishing a government leader’s economic goals. That’s not to say that government is powerless to assist the manufacturing sector. However, to do so, we need to understand natural market forces and find policies that harmonize with them.

A prominent feature of market economies is what the economist Joseph Schumpeter dubbed “creative destruction.” The dynamism of competitive free markets constantly replaces enterprises and jobs that are falling behind in satisfying consumer wants with enterprises and jobs that better satisfy those wants.

Throughout our country’s history, millions upon millions of Americans have faced this grim, unsentimental verdict of the marketplace: You are no longer creating enough value for others to continue in your present line of work, so you need to do something else to earn a living. Ouch!

At the micro level of individual human beings, losing a job hurts a lot. It can leave us disillusioned, angry, and fearful. At the macro level, however, when individuals migrate from jobs that create little value to jobs that create more value, society as a whole becomes wealthier. The ever-evolving creative destruction of free markets drives economic development and increases prosperity.

Alas, the process is not pain-free. The market’s ongoing process of replacing existing, less economically useful jobs with new, more economically useful jobs represents the inevitable growing pains—the price we pay—to achieve prosperity.

Pause to reflect for a moment on the defunct Soviet system. Under socialism, Soviet workers were guaranteed their jobs. In that sense, they appeared more secure than their American counterparts. But at what cost? By freezing the job market in place, the Soviets killed economic dynamism and progress. The overall economy and workers’ standards of living stagnated until the system eventually collapsed, revealing the alleged “workers’ paradise” to be a severely impoverished, backward economy.

Reflect, too, on the long-term trend in farming employment in the United States. Two centuries ago, approximately three-fourths of Americans worked in agriculture. Over the decades, numerous technological advancements increased the productivity of American farmers dramatically. This caused a relentless reduction of agricultural jobs. An ever-decreasing percentage of Americans was

needed to produce enough food to feed the entire country and have enough left over to export abroad.

Today, fewer than 2 percent of Americans produce our food. Are we poorer because of this? On the contrary, we are far wealthier. With fewer people needed to feed us, more and more people worked at providing new, additional goods and services for their fellow man. According to an [MIT study](#), 60 percent of the jobs in the United States today are types of jobs that didn't even exist in 1940. That is progress! Would we want to return to a situation with 75 percent of our people working on farms? No. But we can certainly have sympathy for the millions of Americans who got squeezed out of farming.

As was the case with farming, much (not all, but a majority) of the decline in American manufacturing employment in recent decades is due to increased productivity. According to [a study](#) by the Center for Strategic and International Studies, between 1980 and 2020, output per hour in American manufacturing increased by nearly 600 percent. While the number of U.S. manufacturing jobs fell by approximately 7.5 million from 1980 to 2020, overall employment in the economy increased by approximately 60 million. The job market as a whole and the American economy have expanded substantially.

Just as what happened when millions of Americans had to quit farming, our country has become wealthier because millions of American manufacturing workers are now producing and providing additional goods and services. And also, as happened with the long-term trend in agriculture, even as [manufacturing's nominal share](#) of the U.S. economy has been shrinking as the overall economy has grown, the [dollar value of U.S. manufacturing](#) has continued to increase. In fact, the U.S. manufacturing sector by itself would be the [eighth-largest](#) economy in the world if measured independently, so it would be an exaggeration to say that U.S. manufacturing is in critical condition.

What is of concern today is not U.S. manufacturing overall. The United States does not need to make toothbrushes and garbage cans for us to have an advanced, wealthy economy—although again, to reiterate a point made earlier, gains in the macro economy are often accompanied by pain at the micro level, and many Americans were devastated when their low-tech manufacturing jobs moved overseas.

The macro concern today is that the manufacturing of certain goods essential for crucial applications, such as for national defense, is being done in countries (particularly China) that pose threats to national security. Trump wants to return such manufacturing to the United States. Achieving that goal won't be easy, but the best place to start

would be to correct domestic policy errors that have helped to drive some manufacturing offshore.

Too often, ill-advised government policies have imposed unnecessary costs on American manufacturers, eroding their competitiveness and profitability, and effectively pushing them offshore.

There are three general policy areas where government has undermined domestic manufacturing. The first is corporate profits taxes, which I have long argued should be abolished (see, for example, my [previous article](#)). The second is burdensome government regulations, which are imposing more than [\\$2 trillion of costs per year](#) (more than \$3 trillion per year according to the [National Association of Manufacturers](#)) on American businesses and taxpayers. And the third is the legal anomaly that allows [labor unions to enjoy monopolistic privileges](#) that often enable unions to cripple their employers and render them less competitive, perversely resulting in the loss of union jobs.

If we can fix these ill-advised policies, that would help make domestic manufacturing more viable.

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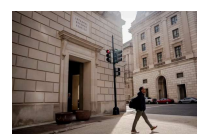
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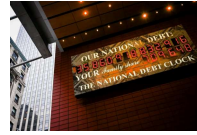
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