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# Making Things in America

By PAUL KRUGMAN

Some years ago, one of my neighbors, an émigré Russian engineer, offered an observation about his adopted country. “America seems very rich,” he said, “but I never see anyone actually making anything.”

That was a bit unfair, but not completely — and as time went by it became increasingly accurate. By the middle years of the last decade, I used to joke that Americans made a living by selling each other houses, which they paid for with money borrowed from China. Manufacturing, once America’s greatest strength, seemed to be in terminal decline.

But that may be changing. Manufacturing is one of the bright spots of a generally disappointing recovery, and there are signs — preliminary, but hopeful, nonetheless — that a sustained comeback may be under way.

And there’s something else you should know: If right-wing critics of efforts to rescue the economy had gotten their way, this comeback wouldn’t be happening.

The story so far: In the 1990s, U.S. manufacturing employment was more or less steady. After 2000, however, it entered a steep decline. The 2001 recession hit industry hard, while the bubble-fueled expansion of the decade’s middle years — an expansion marked by a huge rise in the trade deficit — left

manufacturing behind. By December 2007, there were 3.5 million fewer U.S. manufacturing workers than there had been in 2000; millions more jobs disappeared in the slump that followed.

Only a handful of these lost jobs have come back, so far. But, as I said, there are indications of a turnaround.

Crucially, the manufacturing trade deficit seems to be coming down. At this point, it's only about half as large as a share of G.D.P. as it was at the peak of the housing bubble, and further improvements are in the pipeline. The Boston Consulting Group, which is now predicting a U.S. "manufacturing renaissance," points to major U.S. firms like Caterpillar that once shifted production abroad but are now moving it back. At the same time, companies from other countries, especially European firms, are moving production to America.

And one potential disaster has been avoided: the U.S. auto industry, which many people were writing off just two years ago, has weathered the storm. In particular, General Motors has now had five consecutive profitable quarters.

America's industrial heartland is now leading the economic recovery. In August 2009, Michigan had an unemployment rate of 14.1 percent, the highest in the nation. Today, that rate is down to 10.3 percent, still above the national average, but nonetheless a huge improvement.

I don't want to suggest that everything is wonderful about U.S. manufacturing. So far, the job gains are modest, and many new manufacturing jobs don't offer good pay or benefits. The manufacturing revival isn't going to make health reform unnecessary or obviate the need for a strong social safety net.

Still, better to have those jobs than none at all. Which brings me to those right-wing critics.

First, what's driving the turnaround in our manufacturing trade? The main answer is that the U.S. dollar has fallen against other currencies, helping give U.S.-based manufacturing a cost advantage. A weaker dollar, it turns out, was just what U.S. industry needed.

Yet the Federal Reserve finds itself under intense pressure from the right to make the dollar stronger, not weaker. A few months ago, Paul Ryan, the chairman of the House Budget Committee, berated Ben Bernanke for failing to tighten monetary policy, declaring: “There is nothing more insidious that a country can do to its citizens than debase its currency.” If Mr. Bernanke had given in to that kind of pressure, manufacturing would have continued its relentless decline.

And then there’s the matter of the auto industry, which probably would have imploded if President Obama hadn’t stepped in to rescue General Motors and Chrysler. For those companies would almost surely have gone into liquidation, closing all their factories. And this liquidation would have undermined the rest of America’s auto industry, as essential suppliers went under, too. Hundreds of thousands of jobs were at stake.

Yet Mr. Obama was fiercely denounced for taking action. One Republican congressman declared the auto rescue part of the administration’s “war on capitalism.” Another insisted that when government gets involved in a company, “the disaster that follows is predictable.” Not so much, it turns out.

So while we still have a deeply troubled economy, one piece of good news is that Americans are, once again, starting to actually make things. And we’re doing that thanks, in large part, to the fact that the Fed and the Obama administration ignored very bad advice from right-wingers — ideologues who still, in the face of all the evidence, claim to know something about creating prosperity.



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