Job Connection

Q&A with Harry Moser, Founder of the Reshoring Initiative, on Manufacturing and the COVID-19 Pandemic

Roland Jones | Jan 12, 2021

The COVID-19 pandemic has accelerated a reshoring trend that was already underway before the virus began. Factories shut down around the world last spring and countries embargoed exports of essential products. Here's how U.S. manufacturers may fare in the years ahead as supply chains shift due to the pandemic.

The COVID-19 pandemic changed life for American businesses—and for almost everyone—in 2020.

In manufacturing, facilities were idled and production slowed in the face of slack demand. Shortages of raw materials and personal protective equipment paralyzed businesses. And factory owners who opened their facilities implemented new safety procedures and deep-cleaning schedules to protect workers.

Now that American factories are returning to life—having notched ***an eighth consecutive month of growth in December*** after a downturn last spring—how will the manufacturing sector negotiate a "new normal," when the complex interdependencies of global supply chains are being disrupted by both the ongoing pandemic and fluctuations in the global economy?

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> Harry Moser
> Reshoring Initiative

To answer these questions and more, we thought it would be a great time to speak with Harry Moser, founder and president of the Reshoring Initiative, the leading authority on all things related to reshoring.

We ***last spoke with Moser in June 2018*** when we picked his brain on the state of U.S. manufacturing and the trend of jobs flowing back to U.S. shores after years of offshoring. In this new interview, Moser discusses the state of reshoring and the overall outlook for U.S. manufacturers amid the ongoing pandemic.

Q: Since we last spoke in 2018 we've seen a continuation of the reshoring trend. How big or sustainable is it?

Moser: If you had asked consumers a few years ago if U.S. manufacturing should be stronger, they would have said yes, but if you had asked companies where they're going to make what they sell they would have said, "Wherever I can get it done the cheapest." Over the last few years it has been really hard to get companies to act because they hadn't had their noses rubbed in it; they hadn't seen supply chains fail or the public's response to dependency on China and other countries. So I say now the consumer has gone from interested to insistent, and companies have gone from not caring to interested. Surveys now show a significant increase in the number of companies planning on reshoring. Reshoring has continued to pick up and will be up substantially in 2020, about 50 percent higher than 2019 and driven significantly by the pandemic, specifically due to medical products like PPE and defense materials—products that the country realizes it shouldn't be dependent on overseas nations.

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Q: How did we get to this point where we had a fixation with globalization and offshoring and now we're moving away from that?

Moser: We got into this situation for a couple of reasons: First, the U.S dollar has been consistently overvalued, probably because we're the world's reserve currency. The U.S. market has been rich and easy, so everybody wanted to sell here. We've had a weak skilled workforce relative to Germany, Switzerland and Austria and places like that, and not enough of the smartest kids are going into training programs. Corporate tax rates have been too high, and we had this idea that if we helped countries democratize, including opening our markets up to them, we would help them stabilize, but that happened at the expense of our manufacturing industry. Companies made the decision to move production offshore to Asia and elsewhere. These factors put together caused the trade deficit to expand. The 2017 tax and regulatory cuts, and a generally more business-friendly environment have encouraged reshoring. The future of U.S. manufacturing really depends on our ability to reduce our trade deficit. Doing so will add millions of manufacturing jobs in the U.S.

Q: Does America have the national manufacturing capabilities to handle a large growth in reshoring?

Moser: Increasing manufacturing by 20 percent will take a huge cultural change. We'll need to see more students getting out of high school and going into apprenticeships instead of going to a university to study music, art or anthropology. In Germany and Switzerland, 60 percent of high school kids go into apprenticeships, and a lot of those apprenticeships are in manufacturing. In the U.S., it's 3 or 4 percent going into apprenticeships and few of those apprenticeships are in manufacturing. Most of them are in construction. So we don't have as good a basic educational system, and then we don't get as many of the smartest kids and we don't train them right, so it's essential to change that attitude, that flow, that career expectation, and it's happening: There are large numbers of apprenticeship programs starting and lots of community colleges are starting manufacturing programs. It's still nowhere near as good as Germany, but much better than we were 15 years ago. It's going to take 15 to 20 years to get that cultural change made because everyone believes the way to make money is to go to a university, but it's not necessarily true. Graduates of the FAME apprenticeship program in Kentucky are making $96,000 a year 5 years after graduating, which is the same amount of money for the average Ph.D. graduate in the United States, but these programs aren't getting promoted by guidance counselors.

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Q: Where do you think the skills gap currently lies? Do you think the U.S. can make it up?

Moser: No question. The Trump administration has spent around $200 million on apprenticeship programs through groups like the National Institute for Metalworking Skills (NIMS), which is one of the credentialing programs for manufacturing skills. I like to say that when it comes to the skills gap, 10 years ago Germany was a 10 and the U.S. was a one. But we are getting better now, and Germany is falling off, so while the Germans may now be an 8 we are a 3. But for perspective, about 15 years ago I was on the board of the International Special Tooling and Machining Association and we had a meeting somewhere in Europe where company after company got up and said, "We don't get any respect, all the kids want to go to a university to study liberal arts. Nobody wants to be a toolmaker." These comments were from Germany, Hungary and Poland—places that were so good at training. You could say their kids have caught the American disease of "following your dreams" instead of creating a career where you actually make a living and take care of yourself. So these countries have the same problem. On average they are coming down and the U.S. is recovering, so I'm optimistic about that.

Q: You say you'd like to bring back 5 million jobs to the U.S. over the next 30 years. How do you think we can achieve that?

Moser: A key step is to convince companies to use total cost of ownership (TCO) instead of price. TCO quantifies a range of costs and risks, including such factors as duty, freight, the carrying cost of inventory and travel costs, or the risks of intellectual property loss and pandemics. When these factors are taken into account, companies often find that manufacturing closer to the point of consumption is the best choice. The Reshoring Initiative offers a free ***TCO Estimator tool*** that allows companies to figure out their total cost of ownership. Companies input their numbers into a spreadsheet. The algorithms quantify all of the factors that most companies routinely ignore. We had one company that had a product that they were buying from China that they were forced to buy closer to home, and they cut their inventory by 94 percent. I'm not saying that's going to happen every time, but if you cut your inventory by 50 percent it's going to save you a lot of money—perhaps enough to pay for the machine tools and the training your workers need to be competitive enough to reshore. We also offer the ***Import Substitution Program*** where a company identifies products it makes competitively. We identify the biggest importers of those products and the company uses TCO to convince an importer to buy its products instead.

Read more: Robots, Cobots and Automation: Is the Pandemic Propelling a Wave of Change in Manufacturing?

Q: What factor will the current drive toward automation play?

Moser: My view is automation is a necessary, but not a sufficient condition because there's essentially no automation that we can monopolize here in the U.S. As long as Asian countries have wages that are 20 to 25 percent of ours and they're buying automation at a faster rate than we are, then just purchasing automation is what you need to stay in the game. It's like the Red Queen's race in *Alice Through the Looking-Glass*—you have to run as fast as you can just to stay even.

Q: Are you optimistic about the outlook for the U.S. manufacturing sector?

Moser: Yes. The future is always tough to forecast, but the skills issue is improving and the U.S. dollar has come down from its high. Not far enough, but another 10 or 20 percent would make a big difference. We say that every 1 percent improvement in U.S. price competitiveness is worth about 100,000 manufacturing jobs. Corporate tax rates are down, and while they are at risk of going back up, they probably won't go back all the way. And companies are understanding that dependency is a mistake; it's not good for the company and not good for the country. Recently, a lot of factors have lined up to make U.S. manufacturing stronger. It's up to us to take advantage of the opportunity.

What steps are you taking to reshore operations and promote U.S.-based manufacturing? Share your thoughts in the comments below.

