

DIVIDENDCAFE | PODCAST TRANSCRIPTION

FRIDAY, JULY 25, 2025

Please note that this podcast transcript was machine generated. As a result, it may not always read smoothly, as it reflects unedited spoken content. For the clearest understanding of the podcast's content, we recommend listening to the podcast itself. For complete clarity on the topics addressed, we encourage you to always read the related Dividend Cafe missive and related communications at dividendcafe.com.

Hello and welcome to the Dividend Cafe. I am your host, David Bahnsen, and we are going to this week, address the subject of manufacturing in America. We're gonna look at why manufacturing matters in the way we think about the current state of the economy, what it means for investors, but try to dig a little deeper into what the disconnect is that is creating a certain issue where some of the data would suggest there need not be one other.

Data makes clear that there is one, and the way we're unpacking it may just be a bit misguided. It's a subject I've wanted to address for some time at a deeper level.

Today we're gonna go all things manufacturing. And for those of you watching the video, there's gonna be a handful of charts that we're gonna put up as we go through, I think will enhance the experience. At DividendCafe.com, where the written commentary is, obviously all the charts are there, and as I'm a big fan of the written word, but we'll move on.

Tariffs and manufacturing workers are all interconnected topics right now. Some of that is natural and understandable. Some of it I think is extremely unhelpful. But one of the reasons that this topic has become important is because the rationale often offered for those who favor protective tariffs is to enhance US manufacturing.

FRIDAY, JULY 25, 2025

And adjacent to that is to enhance opportunity for manufacturing workers. You start talking about enhancing opportunity. You're gonna get my attention because I'm an absolute unapologetic believer in an opportunity society. You talk about things that could be better for workers. There is another opportunity for me to get intrigued because first of all, the upside is I really believe that which is best for our economy is best for our workers. That there is pro-cyclical connectivity between wage earners, economic growth, profits that feed off of one another. My eyebrows also go up though because sometimes people, when people say things could be good for workers, they're suggesting things that I think are counterproductive for workers or involve trade-offs.

That may be net negative to the overall economic picture. So there's certain shall we say, dog whistles often that when people refer to workers don't necessarily mean the same things that I do that I think are more market friendly, economic growth, friendly and so forth. But regardless, I may very well and do have my own opinions about the problems that tariffs invite, but I do believe that to the extent we've put out there a pretext of our eroding manufacturing base as a reason to dive deeper. Into various policy solutions. I think it's a good faith discussion, one I want to dive deeper into, and one, I think that we're gonna make some conclusions and statements today that I truly believe are not controversial.

There is a component of this conversation with which I very much accept a good faith room for agreement to disagree, but I do believe some of the facts of the case here are not gonna be particularly problematic. Why manufacturing in particular as a devoted issue of

DIVIDENDCAFE | PODCAST TRANSCRIPTION

FRIDAY, JULY 25, 2025

Dividend Cafe? There are certainly entire things to be said about finance, about technology, about agriculture, any number of other sectors.

I would suggest that, one of the reasons this topic in particular warrants a devoted issue here of Dividend Cafe is that the arguments being made generally are connected to the plight of people and I care about people. And they're arguments may be wrong. The premises may be off. The conclusions may be off, but there's, at least to me, a very plausible reason for us to explore if there is something happening particular in the manufacturing space that is undermining the possibilities, the people having a fulfilling life.

And because I view economics as primarily something driven to drive the optimal conditions for human flourishing. Then I would expect economic and market-based discussions to look at things that might potentially be undermining. But of course, inversely. And within this same point, sometimes we may have to be correcting fallacies or mistakes that are being made in that assessment.

Number two is, as I mentioned before, if manufacturing is going to be the pretext for a lot of tariff policy and tariffs have become one of the major policy issues of our day and market-based discussions. I have already devoted Dividend Cafe after Dividend Cafe to the subject to tariffs, and there's links to a lot of the back issues just in the, when I say back issues in the last, 8 to 12 weeks in particular where this topic has come up a lot.

FRIDAY, JULY 25, 2025

But I think that there is a specific relevance in the current policy moment whereby certain assertions are being made that warrant bigger investigation and they're not assertions connected to some of the other sectors I mentioned. It is more specific to manufacturing. And then finally there's a political context that goes beyond just the immediacy of tariffs as a policy discussion.

But from a coalitional standpoint, there's no question that, quote unquote, working class voters are considered to be a significant voting block. And a lot of effort is made to drive enthusiasm, and sometimes it's referred to as blue collar voters. Sometimes they call it working class. Sometimes they're referred to non-college degree voters, and they're not always the exact same, but there's some overlap and Venn diagram, and then sometimes that's made to be synonymous with manufacturing sector.

And I don't think those things deserve to be treated with perfect overlap, but because like I said, there's daylight amongst those different uses and terms, but because the current political context is so important. So much in where we see economic policy going. I see this hot button issue as relevant around manufacturing because it has now been made to be more than just granularity within the economy about how our labor forces shaping up or what policies we do or do not want in around subsidies or tariffs or what have you.

So there, in other words, this issue is actually bigger than this issue. That's the point I'd make at the heart of the matter to get a conclusion out of the way and then go on to really I think aggressively substantiate it is that most of our current national conversation about

FRIDAY, JULY 25, 2025

manufacturing confuses a reduction in manufacturing jobs or a reduction in the percentage of our jobs that are manufacturing with a reduction or slowdown in manufacturing.

And I think this distinction the realities around it are the heart of the matter. Many who say the US doesn't make anything anymore. Mean the US uses less workers to make the things it makes, and those two things are not the same. But there's nuance around the labor aspect and around the overall manufacturing and product productivity level that warrants unpacking. So I think that we owe it to ourselves to least understand certain facts before we draw the conclusions. Some may want an industrial policy that is aimed towards maximum employment. Whatever we have to do to get the most people employed in manufacturing is what we ought to do.

Now, I don't think most people who would say they believe that, really believe it. If so, they'd be against tractors. Milton Friedman's old joke that if the aim of policy was the maximum employment, then we would wanna get rid of any use technology and use a spoon to, to dig our holes. So taking to an extreme that isn't exactly sensible.

But are there issues at play here that could be improved upon in the policy arena and towards the broader aim of economic growth and where that would play into our investment picture? So the first chart I wanna put up here looks at industrial production and what you'll see is just an immediate graphic correction of the narrative that we're not making things. Our industrial production, the 1950s are held out as a sort of golden era, has increased five times since then. This is US

DIVIDENDCAFE | PODCAST TRANSCRIPTION

FRIDAY, JULY 25, 2025

domestic industrial production. Now there is a significant amount of services, production and a lot of digital activity that won't fall into this.

So our economic growth has been even better. But within the portion of economic growth that is industrial, we've seen very significant gains and not contraction. Now our manufacturing output in particular is significantly higher. And here, if you look at the manufacturing sector output this next chart, you'll see that this was increasing substantially even through the 90s, even after NAFTA, even after a lot of the supposed de-industrialization of the 70s and 80s. And there has been a sort of flat lining of output, but not a decline. And this is net of inflation. This is real output.

And again, where that level is significantly. Higher than it had been 30 years ago. Now, the thing I'd point out is what you basically are seeing here is we're producing an awful lot more and doing it with less workers. We don't have a lot less workers in manufacturing, but we do have a significant decline in workers and manufacturing divided by total workers.

In other words, the about 13 million people that are employed in manufacturing. Is reasonably flat, but as a percentage of the workforce, it's come way down. We're gonna talk about that in a moment. But the cold facts of the matter that are partially illustrated in these two charts we just put up, but that need to be repeated is the US is the second largest domestic manufacturer in the world.

Our domestic manufacturing adds nearly \$3 trillion to our GDP may. Basically meaning it's about 10% of our total economy. And we export

FRIDAY, JULY 25, 2025

from our manufacturing over one and a half trillion dollars of goods per year. And that, of course, is in addition to the massive role we play as the world's largest exporter of services.

So when I refer to the pretty healthy, robust state of what we're producing industrially and the output that you see in manufacturing, you then say what do you mean the employment picture is a bit different. Why are those two things not alike? We employ 13 million people in manufacturing an average salary of \$103,000.

We're gonna explain in a moment why that salary is at a premium, because of the nature of how US manufacturing has changed so much. But I'd also point out that when I talk about 13 million people in manufacturing, we have 239,000 manufacturing employers in the United States. 74% of them employ 20 people or less.

This is significant import to importance to our small businesses, which many of us care deeply about. But industrial workers made up more than 20% factory assembly line manufacturing workers made up more than 20% of the workforce decades ago. And at 13 million, that's about 8% of the workforce now.

So 13 million jobs in a labor force of about 160 million people. Is it realistic that we would get 20% of our workforce back in factory oriented jobs? Is it desirable? Is it even possible? Could government policy make that happen? Again you're talking about 20 million new factory workers off of a base of 13 million.

FRIDAY, JULY 25, 2025

If we were to get to 20% it would strike most of us as, preposterous aspiration in terms of the realism of it but I want to speak more to the desirability of it, and this is where I have to get to a basic tenet of classical economics. The thing that has been such an incredible driver of prosperity and of a higher standard of living.

For so many people around the globe for over 250 years is this concept in a free society and in a market economy of division, of labor, of individuality outside of a feudalism outside. Monarchy outside of a family dynamic where people are forced to stay on a family farm outside of a situation where people are wards of the state and are put to work by the state in a local factory or something of that nature, that we basically have a freedom that has allowed for greater specialization and driven hockey stick growth in the US and candidly all over the globe.

Specialization of human endeavor is a major feature. Economists forever have known that, recognize that this is a cornerstone of the classical school of economics. I don't think all classical economists understand why it is, why this choice and individuality is so important. But that the reason is essentially because people are made in the image of God as individuals, that they are made with a certain dignity and unique, special freedom and personality and character and taste and preference and skills and abilities.

So being able to chase those individual things and not having our entire human identity connected to our participation in a collective is an incredibly important philosophical, and I would add spiritual point but people often don't understand the why behind the what is, but the

DIVIDENDCAFE | PODCAST TRANSCRIPTION

FRIDAY, JULY 25, 2025

what is here is almost indisputable that we've driven a significant amount of economic growth because of individuality.

The reason I bring up choice in individuality is that I'm not sure policy considerations. The reason why 26 million people work in services, 10 million people work in technology, 7 million in finance, 22 million in healthcare. Now, I actually do think on the margin policy affects these things particularly on the healthcare side.

There's a regulatory apparatus that puts a thumb on the scale. I don't think that's a good thing, but I accept that it happens. But, there can be inefficiencies in policy. A great example that many people agree is the disproportionality of how many administrators we have in education versus educators in education.

And that's something you don't even wanna get me started on, but my point is, are we sure it's a negative? That there are 13 million people in manufacturing and 26 million people in services, or is this a byproduct to some degree? A large degree of the for mentioned human individuality. Are people pricing, economic productivity?

Are they seeking their own conditions for flourishing? Is that driving a lot of it, or is there some other problem going on? One of the things here I've done is try to demonstrate that the economic opportunity in the American economy in services as a growing percentage of the total economic pie and then contrasting that to manufacturing of goods.

This, it did not just start in the last 10 years, last 20 years with China entering the WTO, that you go back a very long time and see the

DIVIDENDCAFE | PODCAST TRANSCRIPTION

FRIDAY, JULY 25, 2025

percentage of service employment growing our own labor force, growing significantly. And then the percentage of that skewing. And so the chart that we'll put up now showing manufacturing and services employment over time, the good news is that the percentage decline because of the growing base of total employment has not meant less jobs.

It's just meant that the pie chart, the asset allocation between services and manufacturing has changed. But if you don't mind, I wanna put up another chart now. That that shows the same exact thing, but with agriculture factored in and goes back even further. And here you see that for a while, manufacturing of goods was eroding at the percentage of people employed in the rural economy.

And that was largely perceived as a good thing. And it got people off the farm into a different, more diversified opportunity. And it expanded the economic pie and then over both services and manufacturing eroded into the base of people that worked in the agricultural sector. And then since then, you can see that obviously the same thing that manufacturing helped do to agriculture services then did to manufacturing.

But the point being that this was largely a byproduct of technology, of efficiency in agriculture. Of course, it was the Industrial Revolution, there was a machinery advantage that drastically changed the need for human labor output in driving agricultural outcomes. And entire society was better off for it.

DIVIDENDCAFE | PODCAST TRANSCRIPTION

FRIDAY, JULY 25, 2025

Are there some that would say we ought to be using governmental policy to drive more jobs to agriculture? There may be. It's clearly not a very distinct political movement the way it is on the manufacturing side, but the same exact principle is at play and the same causation I'm gonna argue is as well.

That, but I think as the kind of philosophical question we want to get to is, do we despair the idea, producing more things with less people, or do we love modern supply chain efficiencies? Do you know when Industrial revolution efficiencies happen? Did we accept and embrace that higher quality of life, or do we view this as something to be skeptical of?

I think that some will say, look, you may be right that a lot of people have self-selected into services, jobs versus manufacturing jobs. But it isn't really provable that they've done that 'cause that's what they wanted. It may just be that those opportunities themselves went away, but I think that a little more research will tell us something different.

There was a Cato 2024 globalization survey where 80% of people said that they'd like to see there be more manufacturing jobs. That sounds about right, but then of the same exact survey respondents, only 25% said they would want one and so I think it's one of those areas where a lot of people like the idea of factory work at a lot less people apparently are pursuing it, but we can get much more empirical than that.

There are 500,000 open manufacturing jobs. There has been for a while. Our open manufacturing jobs. We're about 1% to 2% of total manufacturing positions for a very long time, and it's moved to 5% to

FRIDAY, JULY 25, 2025

6%. Now, that's a massive percentage move higher. The National Association of Manufacturers exist as an advocacy group for the manufacturing industry, and they state on the homepage of their website and in one of the queerest data points from their massive amount of, I think very useful.

A collection of data, is it 67% of manufacturers cite the inability to attract and retain employees as their primary challenge? So there is a selection issue going on of what the labor force is migrating to, but I think we have to ask the question why. And the data I think is useful here to basically establish that technology is a primary driver.

Now look, there are oftentimes superior wages available for certain manufacturing jobs and others are not migrating to those jobs. And I am open to the argument that a lot of that is the instability. They say it doesn't do any good to go get a better paying job, but then it goes away in a year when the project goes away, when the new technology makes that particular function obsolete. So there is a vulnerability in the space that has pushed people out of their own self-interest, that wanna reliably provide for their families to something that would be more stable. And I don't know that is something that public policy can alter robotics automation, a whole host of technological advantages have resulted in us making more with a lower headcount.

Wages have not really been the issue here. The question then is what exactly is the right thing to do? And I think this requires a very sober, judicious assessment. That first of all requires us to acknowledge before we start looking for a policy solution that there is a element of this that is not a policy problem.

FRIDAY, JULY 25, 2025

That we have a harder time finding workers than we do jobs in the present state of American economy. And I think there are these rational instincts creating some of that, the self-interest what I mentioned, people for lifestyle reasons, quality of life, that economic calculus they've done about instability.

But there's also an economic element that our manufacturing capacity in the United States has moved up the value chain, that as a rich society, we're able to buy a lot of things that can be made for a much lower price elsewhere. And that's primarily apparel, shoes, clothing, textiles type things, but then become a leader as we are in high-end, high tech, high complexity manufacturing, but that manufacturing often does.

Revol involve a higher barrier to entry of education, of skills, of specialized training. So I don't think we're helping the cause to ignore these nuances because the fact of matter is greater vocational specialization does open doors to those positions, but that lower end manufacturing is simply not the jobs that people have pursued, self-selected into.

Or the best use of resources based on those supply demand dynamics in the American economy, market forces, it's very organic flows here have moved to less manufacturing jobs and need in lower price point sectors and lower wage, less desirable positions. But then there has been an increase of opportunity and higher wage jobs. This is a point I wanna make, I put in bold in the written Dividend Cafe, but I wanna read for you that are watching the video, listening the podcast.

DIVIDENDCAFE | PODCAST TRANSCRIPTION

FRIDAY, JULY 25, 2025

'cause this is something I cannot possibly tell you how sincere I am when I say it. I would do anything for to be in a position that we as a society can see all people of all skill and education level that desire to work hard and have a good life to, for them to be able to find meaningful and fulfilling employment opportunity.

I think saying things I've learned to code is an asinine, condescending, and rude response to the socioeconomic reality that we face. But to argue that we have a problem manufacturing in our country versus an appetite for manufacturing work is not helping anyone. The sober truth telling in my opinion, leads to what I want to conclude with here, which is five quick takeaways.

Number one, market forces and subjective Human preferences are best left to their own devices. Devoid of government planning, selection picking winners and losers. Less unintended consequences enter the fray.

Number two, we never wanna misidentify a cultural problem as a policy problem. The fundamentality that has led to a decline in labor participation is spiritual, cultural, not always fixable from Washington D.C.

Number three, the economic reality that shifts in labor dynamics do not mean less jobs, but different ones. Our whole society is about to learn this for the third time in 150 years from industrial revolution to digital revolution, to now, AI. Dynamism can do short-term damage before it does long-term benefit, but it will always, for certain, do long-term

DIVIDENDCAFE | PODCAST TRANSCRIPTION

FRIDAY, JULY 25, 2025

benefit, but that often will shift job opportunities more than eliminate them.

Number four, ignoring the narratives that are intended to drive voting coalitions. It is a good idea when it comes to economic decision making, there is a great meaning and dignity in blue collar work, white collar work and low barrier entry, high barrier entry work, physical work, mental work.

There is a diverse activity needed to meet human needs. My friends is what we call labor force and economic forces respond and react to changing circumstances. There's spontaneity and dynamism in this and capital. Those of us who are investing capital will be chasing the most rational use around those dynamics.

Finally, number five, and this was the chart of the week. We'll put this final chart up. Making more with less is the theme of the last 30 and indeed longer years. And believing that because less people are working in something that is continuing to get that greater output can, if we don't understand that interchange the complexity of it, we may miss the dynamic need of the moment. And then select a diagnosis that is wrongheaded. And that I think would be the error both in our investment decisions and in public policy.

A lot of charts this week, a lot of commentary, certainly room for disagreement, civil disagreement of course, is always the best kind, but I hope this has been a helpful high level overview of the state of manufacturing and our labor force.

DIVIDENDCAFE | PODCAST TRANSCRIPTION

FRIDAY, JULY 25, 2025

And I welcome your feedback as you chew on it. In the meantime, thank you for listening. Thank you for watching. Thank you for reading the Dividend Cafe. I hope you and yours have a wonderful weekend. Look forward to being back with you for our Monday edition Dividend Cafe in just a few days. Take care.