

Apple's Return to U.S. Assembly Is More Than Good Optics: View
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By the Editors

June 14 (Bloomberg) -- Let the geeks, and we use the term endearingly, argue over the changes Apple Inc. announced this week to its mobile operating system. Our focus is on something more prosaic: an advertisement -- and what that ad says about the state of U.S. manufacturing.

Apple's latest slick promotion touts the "Designed by Apple in California" line it includes on its devices (conveniently overlooking the second line, "Assembled in China"). At the end of the ad, a somber voice intones: "This is our signature. And it means everything."

What it means is that Apple is feeling pressure from U.S. politicians and labor activists over the tiny number of domestic jobs it provides, compared with the huge workforce Apple supports offshore. The pressure was evident last month, when Chief Executive Officer Tim Cook, on the hot seat over the small amount of corporate tax Apple pays, reminded a Senate subcommittee that the company is investing \$100 million to make some of its Macintosh computers in the U.S.

It's not a huge amount of money for a company that earned \$9.6 billion last quarter. Still, the operation, to be based in Texas, will be Apple's first domestic assembly foray since 2004, and other technology manufacturers are moving jobs onshore. Google Inc.'s Motorola Mobility, for example, also plans to assemble smartphones in Texas.

It's not all public relations: These companies are taking advantage of low energy costs and a decade of wage stagnation, which has made U.S. factory jobs more competitive with those in China, where wages are rising. Even China's Lenovo Group Ltd. is starting to assemble notebook computers in North Carolina.

Insourcing Movement

The insourcing movement has led to what some are calling an American manufacturing renaissance. This is an overstatement: Yes, manufacturing was responsible for the largest increase in economic value added (total output minus the value of intermediate products) in 2011 and 2012, according to the Labor Department. And since 2010, the U.S. has gained back some of the steep losses in manufacturing jobs. Yet the sector has lost 21,000 jobs since March. And the current employment of about 12 million people is a far cry from the peak of 17 million in 2000.

Getting back to that level will be tough, if not impossible. Apple's Texas initiative might result in 200 new jobs, by some estimates. What's more, the Apple, Lenovo and Motorola plants will only assemble devices, not build them from scratch. The components may even have to come from China, which pretty much controls the worldwide electronics supply chain.

But the sheer number of jobs isn't necessarily the best measure of success. More important, as Willy Shih, a Harvard Business School professor of management explains, is constant innovation, quality control and having engineers, production lines and suppliers in close proximity. The rush to low-cost China interrupted a lot of the progress U.S. companies had made -- and created new costs.

Inventing products is only a part of the value proposition. Taking an idea from the laboratory to the production line is equally important. The manufacturing process can give vital information to engineers, who in turn can use it to improve designs or manufacturing methods. All of this ultimately leads to greater efficiencies, fatter profits, faster economic growth -- and yes, better-paying jobs.

Insourcing can help speed this process along. Washington could reinforce the trend with a mix of pro-manufacturing policies, starting with taxes. By lowering the corporate income- tax rate from the current 35 percent -- one of the highest in the world -- Congress could stem the flow of jobs overseas.

Lawmakers should also make permanent the research-and- development tax credit and liberalize trade with Europe and Asia.

Meanwhile, Congress could fund President Barack Obama's proposal to spend \$1 billion on 15 institutes, modeled on a German program, to develop and showcase new manufacturing technologies. Community colleges can play a valuable role by offering the specialized job training that high-tech manufacturers require.

Soon Apple will be able to put an "Assembled in the U.S." label on some of its computers. If Congress and the White House can deliver on the other policies, it might not be long before that label says, "Made in the U.S."

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