# America is lucky it's no longer a manufacturing powerhouse—it's what's protecting the U.S. economy from the worst of the oil shock, top economist says

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Americans are reeling from the effects of the Iran war—now entering its ninth week—in which the choke hold on the Strait of Hormuz has effectively stopped the flow of more than 20% of the world's energy supply and has sent countries globally scrambling to find alternatives. In the U.S., average gas prices exceed $4.45—some even touch $6 in some parts of the country—the highest levels since 2022. March saw the biggest jump in core inflation, 0.7%, in three years amid rising oil prices. Produce staples like tomatoes, bananas, and yellow onions have already gotten more expensive since the war began, and as a result of increasing fertilizer prices, food costs are expected to continue rising as farmers struggle to afford critical chemicals traded through the strait.

But despite all this, one economist argues it could be much worse.

Eswar Prasad, senior professor of trade policy and economics at Cornell University, said Americans can thank the U.S. losing its manufacturing influence (and instead shifting toward a service-oriented economy) as the major reason why it relies less on oil than it did half a century ago.

"The increase in prices that we are seeing at the gasoline pump, for instance, are very visible manifestations of the increase in oil prices," Prasad told *Fortune*. "But the overall disruptive effect of the economy is limited by the fact that the U.S. is not the manufacturing powerhouse it once used to be."

The U.S. has avoided the magnitude of other countries' woes in the weeks following the war with Iran, which rocked the world's energy supply chains. Pakistan, Indonesia, and the Philippines are counting down the days until they reach a critical oil shortage. By International Energy Agency chief Fatih Birol's estimations, Europe has about three weeks of jet fuel remaining.

The U.S. position as a net oil exporter—shipping about 10.15 million barrels per day and importing about 8.5 million, as of 2023, according to government data—has also helped soften the blow of the oil shock. But according to Prasad, America's most effective protection from an energy crisis has been in the works for decades.

## The U.S. manufacturing slump

World War II sparked an industrial boom in the U.S. that peaked in 1979, when manufacturing employment reached an all-time high of 19.6 million. Part of that growth was in spite of the U.S. increasingly turning to cheaper, overseas labor for manufacturing, as well as the explosion of the baby boomer generation, which became more educated and affluent than previous ones. As the generation matured—and as more women joined the workforce—the U.S. began shifting away from its manufacturing heyday. By June 2019, manufacturing employment fell over a third (35%) from its 1979 high to 12.8 million jobs.

Instead, the U.S. has seen a white-collar revolution. President Jimmy Carter ushered in a wave of deregulation, wiping away distinctions among commercial banks, savings and loan associations, and credit unions and subsequently making financial institutions more competitive and market-driven. Airlines' decisions on where to offer flights were no longer dictated by the Civil Aeronautics Board, which managed routes and fares, compared to today's Federal Aviation Administration, which is mostly concerned with air traffic and safety. Computers and Information Age technology cemented this shift.

Despite the new foundations of the American economy, the Trump administration has worked to revive the manufacturing industry, implementing tariffs to discourage pushing factory jobs overseas. The efforts appear to be futile, with manufacturing losing about 108,000 jobs in the first year of President Donald Trump's second term. Economists attribute the losses to the tariffs meant to revive the sector, suggesting the import taxes inhibited U.S. companies from expanding and hiring. Other experts said Trump's immigration crackdown exacerbated labor shortages and production efficiency. But these policies and disruptions still are less harmful to the U.S. GDP as a result of manufacturing having a smaller hold on the economy, as compared to other countries.

"The disruption to the U.S. production system is really much milder than in many other countries, including advanced economies such as Germany, that are still much more reliant on manufacturing than the United States is," he said. "So that intrinsically limits the impact of the shock."

Germany derives about 20% of its economy's gross value from manufacturing, a significantly larger share than the European Union's 15.9% share, according to Eurostat data. In April, the German government agreed to give 1.6 billion euro ($1.9 billion) in fuel price relief to businesses and consumers, slashing its energy tax on diesel and petrol. A spring economic forecast now expects Germany's GDP to grow 0.6% in 2026, forecasted downward by 0.6% compared to a fall 2025 projection.

"This war is the real cause of the problems we are experiencing in our own country," Chancellor Friedrich Merz told reporters last month.

Merz has been particularly outspoken about the war—and much to Trump's chagrin. Last week, Trump removed 5,000 U.S. troops from Germany following Merz's comments that the U.S. is being "humiliated" by Iranian leadership. In an interview on Sunday, Merz downplayed Trump's decision to withdraw troops and said Germany is still open to working with the U.S. and Trump.

## The U.S. productivity surge

It's not just a service-based economy keeping the U.S. afloat, Prasad indicated. Since late 2019, the U.S. has seen a surge in productivity that has outpaced the U.K., Canada, and Europe.

"That is what has kept the U.S. economy buoyant during an otherwise difficult period in the world economy," Prasad said. "That, I think, continues to make the U.S. economy much more resilient to this or any other shock that might come along compared to other economies."

Though the reasons behind the productivity surge—perhaps a boom in remote work or AI-powered automation—are unclear to economists, greater productivity generally means greater economic growth without inflation. If AI is the underlying reason behind skyrocketing productivity, Iran war-induced shortages of helium used to construct semiconductor chips could hamper the tech's expansion.

Prasad was undeterred by the war's impact on the American economy compared to its heavily industrialized counterparts: “The U.S., even before the shock, was in the best position to withstand any major global shock.”