The Trade Debate (Continued)

But where to go from here?

By Richard Katz

I admit it. I'm confused. I'm not surprised that, in his rejoinder to me in the Fall 2016 issue of *TIE,* Adams Nager once again insisted that U.S. trade with China alone is responsible for a full two-thirds of the 5.7 million decline in manufacturing jobs during the 2000s. (By the way, it's hard to understand how that number is even possible, since the period includes the 2008–2009 recession, which accounted for 40 percent of entire decade's job loss. That doesn't leave any room for a single job lost either to automation or to trade with any country such as Canada, Mexico, or Japan, or the nearly two dozen countries accused by some of currency manipulation.)

No, what confuses me is this: given Nager's focus on how trade has cost so many jobs, I would have expected his organization, the Information Technology and Innovation Foundation, to have made proposals to help workers. Some examples might have included enhanced Trade Adjustment Assistance, retraining, employer-employee job-matching, and many other "active labor measures" to which some northern European nations devote 1 percent or more of their GDP. Right now, the United States spends a niggardly 0.1 percent of GDP, the lowest among rich countries. That's just $1,800 per unemployed worker, a fraction of what the country spends on unemployment compensation. And yet, a 2011 study by Federal Reserve economists—based on evidence from many countries—suggests that doubling that amount could create and/or save nearly 700,000 jobs. Much of that would prevent people such as a displaced fifty-year-old autoworker with just a high school diploma from leaving the labor force.

Richard Katz is editor of the monthly The Oriental Economist Report *and the semi-weekly* TOE Alert.

THE INTERNATIONAL ECONOMY
THE MAGAZINE OF INTERNATIONAL ECONOMIC POLICY
220 I Street, N.E., Suite 200
Washington, D.C. 20002
Phone: 202-861-0791
Fax: 202-861-0790
www.international-economy.com
editor@international-economy.com

Maybe I missed something, but I could find no worker-oriented proposals at all on ITIF's website, including its "Memo to Trump on Innovation, Productivity, and Competitiveness." There was a plethora of proposals that would benefit the high-tech companies sponsoring ITIF, such as subsidies for clean energy, and switching some public works expenditures from steel and concrete to computerized traffic lights and intelligent vehicles. However worthy the ITIF's proposals may be, they hardly seem likely either to help the workers supposedly victimized by trade or boost political support for open trade policies. Moreover, why are American steelworker jobs less deserving of support via government spending on public works than jobs for those working in high tech? If the ITIF's answer is that high-tech is better able to improve American growth and living standards, then I'd have to point out that most economists say the same thing regarding international trade. Countries with higher trade-to-GDP ratios tend to have higher productivity growth.

What's even more confusing is the ITIF's stance on trade policy itself. Nager's fulsome criticism of the "Washington trade consensus" included the claim that Trump voters "understood from first-hand experience what can happen when trade isn't conducted on a level playing field." Nager's policy conclusion was: "Deepening global integration is one of the most important tasks of U.S. economic policy, but only *after* America successfully contains and then rolls back the spreading cancer of foreign innovation mercantilism while at the same time putting in a place a robust national competitiveness strategy [emphasis added]." Exactly what does the ITIF propose as a way to implement "containment" and "rollback"? Would it raise tariffs or impose other sanctions on issues ranging from intellectual property rights to currency rates? It's hard to find specifics on its site, aside from support for the controversial "border tax" promoted by President Donald Trump and some of the Congressional GOP leadership.

Perhaps other *TIE* readers made the same inference I did: that Nager's dictum meant postponing new pacts like the Trans-Pacific Partnership. After all, if there was anything in this election which epitomized the "Washington trade consensus" among both Trump and Sanders supporters, it was TPP. And yet, the ITIF firmly endorsed the TPP. So were the Trump and Sanders voters who despised TPP showing the "understanding" they had gained from "first-hand experience" or were they misguided? (For my own views on the pluses and minuses of TPP, see my pieces in *Foreign Affairs,* "Trading Down: Is the TPP Making the United States a Less Benign Hegemon?" and "Trade Trials: Getting TPP Right Is Better than Getting It Fast.")

And exactly what milestones need to be achieved before we reach the land of "after"? For example, back in 2005, some critics claimed that the biggest cause of China's trade surplus was a currency that they said was undervalued 27.5 percent, and Senator Charles Schumer (D-NY) proposed a 27.5 percent tariff to counter this. However, even after the renminbi rose about a third *vis-à-vis* the dollar and the International Monetary Fund and other authorities said the RMB was no longer undervalued, China's trade surplus continued. So did the calls for punitive tariffs. In May 2015, Schumer claimed the RMB was still undervalued by 33 percent, despite its appreciation over the intervening ten years. He got the Senate to pass a bill 79–19 that would require the Commerce Department to investigate a country's currency policy if a U.S. company filed a complaint, and then, if Commerce decided there was currency manipulation, to impose duties to raise the cost of an imported good enough to counter the alleged manipulation. (The bill never became law.) One gets the impression that, as long as China runs a trade surplus, some people will always charge that currency manipulation and other "cheating" is the main reason.

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I agree with Nager that the "Washington trade consensus" has, in effect, argued that the train of efficiency must steam ahead no matter how many people get crushed in its wheels. Trump's response is to stand athwart the track and yell "stop," and that is a false solution to a real problem. I'd argue that a genuine solution is to continue the progress that enables growth in living standards, but help those people hurt by both globalization and by the technological progress that eliminates even more jobs. I'll come back to policy proposals at the end, but first, let's clear out some factual underbrush.

TRADE, TECHNOLOGY, AND MANUFACTURING JOBS

Nager alleges that I said trade played no role in the loss of manufacturing jobs. What I actually said was that trade's impact was marginal compared to other factors, mainly productivity-enhancing technologies such as automation. I cited Robert Lawrence's work that estimated that trade with all countries accounted for about 5 percent of the problem. I could have equally well cited Ball State economist Michael Hicks ("The Myth and the Reality of Manufacturing in America," 2015) who estimates trade's role at 13 percent of the factory job loss during 2000–2010.

Nager accuses me of misreporting a study by David Autor which claims that trade with China alone accounted for 17 percent of the factory job loss (this contrasts with Hicks' estimation of 13 percent for all countries combined). Nager claims Autor's real number is 55 percent, and that I misrepresented his data. If he were right, that would suggest, at best, incredible sloppiness; at worst, deception. But the fact is that I did not cite the 2013 paper to which Nager refers, but a very different paper written three years later, entitled "The China Shock: Learning from Labor Market Adjustment to Large Changes in Trade," in which Autor and his co-authors present the 17 percent estimate. In the latter paper, Autor writes, "Applying the direct plus the indirect input-output measure of exposure increases estimates of [China] trade-induced job losses for 1999 to 2011 to 985,000 workers in manufacturing." And 985,000 is indeed 17 percent of the manufacturing job losses in that period. I added: "But even if Autor were right, when our politicians and some economists put most of their focus on that alleged 17 percent, rather than the other 83 percent, does not the word 'scapegoat' apply?"

Nager says that, in adapting Lawrence's use of a linear trend line for manufacturing's share of total jobs during 1960–1999, I ended up with a skewed projection for the 2000–2016 period. I should have used an exponential trend line, he says. This is a fair criticism, and I welcome the correction. Given that manufacturing's share of jobs stayed fairly level during 1960–1967, we get a far more precise fit if we use a slightly shorter period as our base, 1967–1999, and a more sophisticated version of the exponential trend line. As we can see in Figure 1, the projection for 2016 almost exactly predicts manufacturing's share of jobs. If China's joining the World Trade Organization had been so consequential, one should have been able to tell from this chart when it joined, but we cannot. (It joined in December 2001.)

If trade is the main reason for the decline in U.S. factory jobs, how does Nager explain the case of Germany or Japan? Despite running chronic trade surpluses, both Germany and Japan have respectively lost a third of their factory jobs since 1991 and 1992.

Nager concedes that, if manufacturing output did not decline, that trade cannot be blamed for much of the decline in factory jobs. To get around that objection to his argument, he posits that manufacturing is really much lower than reported in the official figures. Computer output is overestimated, he says. I'm familiar with the argument, since an earlier vintage of the same argument had a personal impact on my career. During the 1980s, I was going to write my master's thesis on the deindustrialization debate in the United States. However, claims from serious economists that computer production was overestimated and imports underestimated led the U.S. Commerce Department to withdraw its entire series on constant value output by industry. I had to choose a different topic, an analysis of Japan that turned into a book. In any case, when the Commerce Department's new numbers came out, it made little difference in the main point: manufacturing's share of real price-adjusted GDP was more or less stable over the long haul. There was no sign of a decline in manufacturing *per se,* just a decline in manufacturing *jobs.*

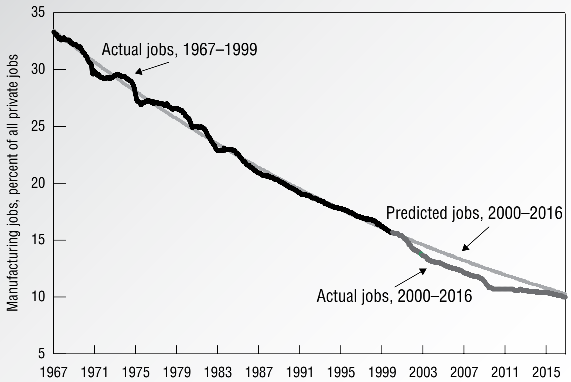
I could find no worker-oriented proposals at all on ITIF's website.

Rather than struggle back and forth over exponential trend lines and the correct price index for computers, let's take the concrete example of automotive manufacturing, a sector where worker discontent about NAFTA turned blue states red in November. From 2000 to 2015, the price-adjusted output of autos and auto parts rose 44 percent. Suppose there had been no trade deficit at all, but auto purchases by Americans remained the same. In that case, auto output would have risen 50 percent instead of 44 percent (see Figure 2). So there is certainly some impact from trade, but not all that much.

The core of the jobs issue can be seen in Figure 3: in 2015, the United States produced 44 percent more output of autos and auto parts than in 2000, but with 30 percent fewer workers. If there had been no trade deficit over the whole 2000–2015 period, jobs would have fallen 27 percent. Again, not a big difference.

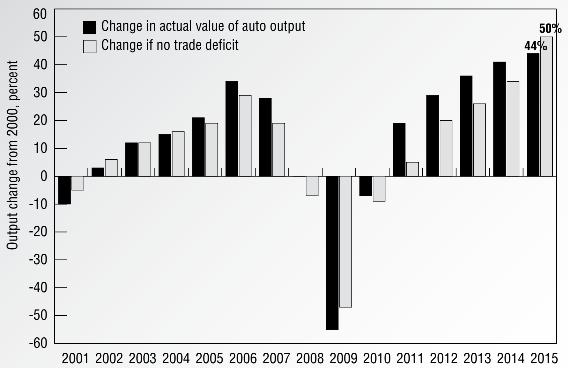
On the other hand, suppose there had been no increase in productivity. In 2000, it took twelve workers laboring for a year to produce $1 million worth of vehicles and parts output (in constant 2009 dollars). In 2015, it took half that number of workers. If it still took twelve workers today, and

Figure 1 Manufacturing's share of total jobs



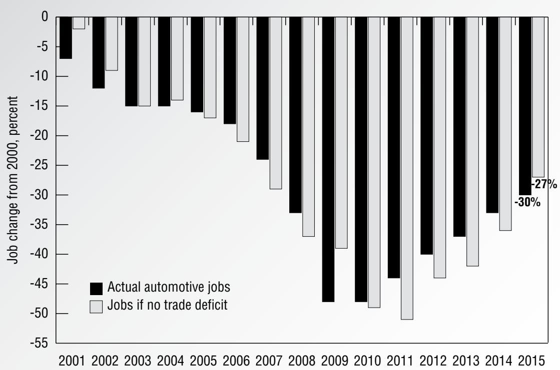
Source: Author calculation using Bureau of Labor Statistics data.

Figure 2 Output of autos and auto parts, 2000–2015



Source: U.S. Department of Commerce, Bureau of Economic Analysis

Figure 3 Automotive jobs, 2000–2015



Source: U.S. Department of Commerce, Bureau of Economic Analysis

auto purchases remained the same, auto jobs would have risen 44 percent, instead of falling 30 percent. That's a huge difference.

As an advocacy group for high-tech firms, the ITIF appears to fear a "neo-Luddite" response if people accept that "the robots are taking our jobs." It is true, as the ITIF says, that in the long run, the income-enhancing effects of technology more than offset the job-destroying impact of technology; so technology ends up creating more jobs than it destroys. The problem is that a 55-year-old former autoworker or a secretary with a high school diploma is not going to easily become a computer programmer. The share of men aged 55–64 in the labor force has plunged from nearly 90 percent in the mid-1950s to just 70 percent now. This problem must be addressed, whether the cause is auto plants running off to Mexico, tool and die workers displaced by numerically controlled machine tools, or all the secretaries put out of work by the personal computer.

It is possible that the biggest cause of discontent and social dislocation is not simply the loss of a job—after all, tens of millions of Americans lose their jobs each year and have to get new ones—but the fact that, in all too many cases, the new factory job may not pay as well as the job that was lost. In 2015, each automotive worker produced more than twice as much real output as in 2000. And yet real wages went down 10 percent. This is not the way market forces are supposed to work, the textbooks tell us. The market should lead wages to rise in tandem with productivity. Reality followed the textbooks from 1948 to 1973. Ever since then, wages have lagged far behind productivity growth. This, too, is often blamed on trade and runaway shops. Workers say that employers threaten to outsource production unless they agree to wage cuts. But let's test whether these incidents tell the whole story by seeing how all workers, not just in trade-sensitive manufacturing, suffered wage austerity. From 2001 to 2015, despite a big 60 percent increase in real output per worker in manufacturing, worker pay hikes (wages plus benefits adjusted for inflation) were limited to a tiny 7 percent. But now look at the economy as a whole, most of which does not compete with imports. Worker pay was limited to the same 7 percent hike, far less than the 30 percent increase in productivity (see Figure 4). In short, employers are successfully suppressing wages whether they are in trade-exposed sectors or not.

That brings us to the political problem for free traders. They can accurately insist until they are blue in the face that trade, outsourcing, "runaway

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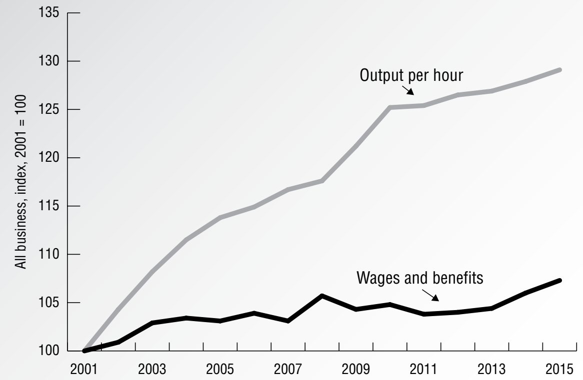
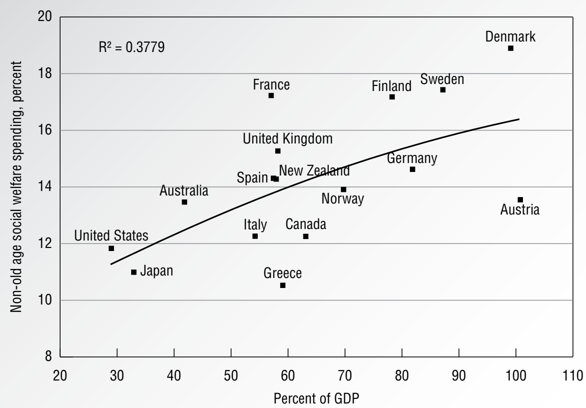
Figure 4 Worker productivity vs. worker pay, 2001–2015



Source: U.S. Department of Labor, Bureau of Labor Statistics

Figure 5 Trade doesn't prevent active labor measures



Sources: OECD and World Bank

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shops," and so forth are being scapegoated for problems whose causes mostly lie elsewhere. However, Trump's victory shows that truth is not always persuasive. If the multinationals supporting free trade don't want false solutions to real problems, then they must provide real solutions. To paraphrase John F. Kennedy, those who make pro-labor reforms impossible make protectionism inevitable.

WHERE DO WE GO FROM HERE?

Almost two centuries ago, classical economist John Stuart Mill pointed out the political/economic solution to today's problem: "free trade plus compensation." Although free trade is a win-win proposition for each nation as a whole, within each nation, trade makes some citizens richer and others poorer. Fortunately, the gains for the winners are so big that some of these gains can be redistributed so that every citizen is better off. Unfortunately, these days it has become the fashion to condemn as "socialist" almost all of the twentieth-century measures used in the United States to promote income equality and security and to make creative destruction politically and economically tolerable—from a progressive income tax, to a minimum wage that keeps up with inflation, to Social Security, to labor unions, to publicly funded education.

In the early postwar era, enlightened business leaders recognized the need for a "grand bargain." In return for trade liberalization, they would agree to measures to help those hurt by trade. Congress created Trade Adjustment Assistance in 1962 to help workers and firms adjust to dislocation caused by increased trade liberalization. The U.S. Chamber of Commerce supported TAA in its early days. In 1973, the Chamber even commissioned liberal trade economist C. Fred Bergsten to head a task force on expanding TAA's coverage (although it ended up not endorsing his proposals). But in 2002, it reversed itself and began opposing TAA. Earlier, the Reagan Administration tried to end TAA. Spending on TAA has been so miserly, and eligibility so restricted, that unions called it "job burial insurance." America's business leadership has become so shortsighted and self-defeating that, in the late 1980s, it unsuccessfully opposed a measure to require a sixty-day notice of mass layoffs, a measure that was shown to shorten the transition time before laid-off workers got new jobs. This is the kind of business leadership that hands easy ammunition to the opponents of the Trans-Pacific Partnership, NAFTA, and the like.

Whatever the flaws of TAA may be, today the United States needs a "Job Loss Adjustment Assistance," that is, "active labor measures" to help workers whether their jobs are lost due to imports and outsourcing or else the rise of the personal computer and a mismatch of skills. Why are workers who lose their jobs due to automation any less deserving than those who lose their jobs because Walmart now sells underwear made in Bangladesh instead of North Carolina? Given how well active labor measures can turn the unemployed into tax-paying employees, refusing to spending money on these programs is penny-wise, pound-foolish.

WHAT "RACE TO THE BOTTOM"?

Both the right and the left claim that globalization prevents active labor measures or a progressive income tax, asserting that companies flee countries that spend money on those areas. The policy conclusion from business groups is to pursue globalization but reject active labor measures. The policy conclusion from the labor movement is to obstruct globalization.

The evidence shows that both sides are wrong. Across the OECD, countries with higher ratios of trade to GDP tend to spend more on active labor measures and other pro-market forms of labor support (see Figure 5); countries with more inward foreign direct investment also spend more on active labor measures. The evidence is too weak to prove cause and effect; the most we can say is that these figures show more trade does not prevent spending on various forms of social insurance. However, the correlation makes sense. When done right, active labor measures, income redistribution, and creative destruction are all mutually reinforcing. Just as people with access to fire insurance are more likely to buy homes, so workers with these forms of social support are more likely to tolerate open trade. At the same time, countries with higher trade-to-GDP ratios tend to grow faster, and it is that growth which makes these kinds of social insurance affordable.

Trump's victory shows that truth is not always persuasive.

As long as free trade is coupled in the public mind with short-sighted anti-labor attitudes, it will be hard to get majorities in Congress for free trade. This is the lesson business should take from Trump's triumph. At the same time, labor unions and their Democratic Party allies need to recognize that, TPP or no TPP, globalization is going to continue. Rather than imitate King Canute in commanding the tides of the times to retreat, they, too, should focus on the "grand bargain." ◆