End *the* Conspiracy *of* Silence

By Adams Nager

My response to Richard Katz.

The election of Donald Trump was a body blow to the so-called "Washington trade consensus," a coherent, if intellectually flawed, set of beliefs which holds that trade always benefits the U.S. economy and that any efforts to restrict it, even in the service of ensuring that our trading partners play by the rules, by definition is detrimental to economic growth. To the extent there are any negative short-term effects on particular groups, these adherents believe they can be alleviated by a slightly bigger dose of trade adjustment assistance. For them, the benefits to consumers outweigh the loss of jobs that went overseas, even if those moves were caused by pernicious mercantilist trade policies instead of market forces. But will the trade establishment get the message heard round the world or will they continue their practice of dismissing any contrarian voices as ignorant protectionists and isolationists? If my exchange with Richard Katz in this magazine is any indication, the answer is unlikely, at least for now.

The Spring 2016 issue of *The International Economy* published my article arguing that mercantilist policies in China and elsewhere hurt not only U.S. workers who were dislocated, but the American economy as a whole, and not only in the short-term. Prior to November 8, this message was treated by the Washington trade consensus as a foreign antibody that needed to be expelled at all costs. The prevailing "free trade" doctrine holds that while trade may hurt some individuals, it is always a benefit for the nation as whole, and arguing otherwise weakens faith in globalization and leads voters to stray from the true path. It's clear that more than half the electorate begs to

Adams Nager is an Economic Policy Analyst at the Information Technology and Innovation Foundation.

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

differ. They understood from first-hand experience what can happen when trade isn't conducted on a level playing field.

In response to my article, in the Summer 2016 *TIE* Katz disagreed with the idea that trade was partly responsible for the loss of over five million U.S. manufacturing jobs in the 2000s and denied that the U.S. trade deficit should be a concern. Katz knows that to give ground on these two points is to open up major fissures in the dominant free trade consensus that holds that trade is always good, that the trade deficit is only an accounting function, and that the United States economy for all intents and purposes does not compete with other economies.

Before going on, let me be perfectly clear that my organization (the Information Technology and Innovation Foundation, the leading U.S. science and tech policy think tank) and I are not advocating "protectionism" and a retreat from globalization. Far from it. 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.

In ITIF's Global Mercantilist Index (a ranking of nations' trade policies), China is the world's worst offender, and Katz himself admits that many of China's trade policies are not on the level. However, he won't acknowledge that trade with China hurts the U.S. economy. Far from relying on simply producing consumer benefits, trade mercantilism can reduce the global market share, and jobs, for U.S. advanced industries. Saying this aloud is not breaking a code of silence, but is a vital step toward a trade debate that's less polarizing and more effective.

So let's get to the core debate. Katz rejects the argument that foreign competition, much of it from China, was responsible for a significant share of the unprecedented U.S. manufacturing job losses in the 2000s. Indeed, Katz's strident denial of U.S. manufacturing decline is central to his argument. Katz and other defenders ground their argument by asserting that if foreign competition really hurt manufacturing jobs, then manufacturing's share of GDP would "have plunged during 1999–2011, the period when David Autor claims that imports from China destroyed a million American factory jobs," as Katz puts it. We agree. If manufacturing output as a share of GDP did not decline, then that is clear evidence that job loss was due only to superior manufacturing sector productivity, not to loss of U.S. competitiveness.

However, from 1999 to 2015, manufacturing grew by 27 percent while the rest of the economy grew by 37 percent, according to official U.S. real value-added statistics. This does not appear to be alarming, yet this statistic comes with a major caveat—the main reason manufacturing output went up at all is because government statistics vastly overstate output in one sector: computer and electronic products (NAICS 334). From 1999 to 2015, official statistics claim that output in this single sector grew by 400 percent, accounting for 60 percent of U.S. manufacturing output growth. And without looking at NAICS 334, U.S. manufacturing output is lower in real terms than it was in 2005.

Unfortunately, the U.S. Department of Commerce's Bureau of Economic Analysis does not accurately measure change in manufacturing output, as ITIF showed in our original article. A number of other scholars have demonstrated this, including Upjohn Institute scholar Susan Houseman in her 2014 working paper "Measuring Manufacturing: How the Computer and Semiconductor Industries Affect the Numbers and Perceptions." And as we

Katz and his fellow travelers need to be vocal advocates of a "third way" on trade, beyond unalloyed free trade on one side and left-wing protectionism on the other, with the support of a robust national competitiveness policy.

and Houseman have shown, the increase in output is not what most people think it is—more computers being made in the United States. Instead, it's simply a result of computers getting faster, which leads BEA to conclude that output went up. As we have shown, it appears that with offshoring of computer assembly, the United States is producing significantly fewer computers and electronic products today than fifteen years ago.

In other words, collectively output in the rest of U.S. manufacturing, accounting for a bit over 90 percent of manufacturing output, only grew by 11 percent over the sixteen-year period, much slower than the 37 percent GDP growth. From 1999–2015, ten of nineteen manufacturing sectors lost output, producing less today than they did sixteen years ago. And since 2007, output in manufacturing

outside of computers has actually decreased by 7 percent. This clearly does not comport with the narrative that trade had no negative affect on U.S. manufacturing. So much for the comforting claim that it was technology that killed manufacturing jobs. Katz does not engage this argument as made in our original article, yet this is the central question to the entire debate.

Constructing another straw man, Katz criticizes MIT's David Autor, Economic Policy Institute's Robert Scott, and myself for purportedly reporting different estimates of the impact of China on U.S. manufacturing. Since the numbers differ, he argues they must all be wrong and the real number must be near zero. But he does not even accurately report the results of the study he dismisses out of hand—David Autor's 2013 paper with David Dorn and Gordon Hanson, "The China Syndrome: Local Labor Market Effects of Import Competition in the United States," estimates that supply and demand shocks from Chinese imports account for 55 percent of manufacturing employment decline between 2000 and 2007, not 17 percent as Katz states (Katz mistakenly uses Autor's estimate of jobs lost from the supply shock only, then attributes that estimate to a longer time period, making the total number appear less severe). Scott's paper with Will Kimball, "China Trade, Outsourcing and Jobs," published in December 2014 by EPI, estimates that 2.4 million jobs lost between 2001 and 2013, or 55 percent of jobs lost during the period, is based off of the growing U.S. trade deficit with China, very close to Autor's estimate. And Scott's overall estimate is close to ITIF's 2012 estimate of 67 percent in "Worse Than the Great Depression: What the Experts Are Missing About American Manufacturing Decline," which applies to manufacturing jobs lost from competition with foreign countries from 2000 to 2009. What all three studies agree on is that foreign competition, especially from China, had a substantial negative impact on U.S. manufacturing employment. But it's important to remember that it's not just the loss of around three million manufacturing jobs to global competition, but also the jobs that depend on those jobs, in local suppliers and other firms. Using a conservative multiplier of 1.5 (the Bureau of Economic Analysis estimates a dollar of manufacturing output generates $1.48 in other services and production), the loss of three million manufacturing jobs represents a loss of an additional 4.5 million jobs. And these losses were not evenly distributed across the nation. Since 2000, Michigan, Wisconsin, Pennsylvania, and North Carolina, perhaps the biggest surprises for Trump in the election, accounted for 23 percent of the job losses, even though those states accounted for 12 percent of the U.S. workforce.

Figure 1 Manufacturing Jobs as a Percentage of Non-Farm Jobs With Linear Trend Line For 1960 to 1999, BLS

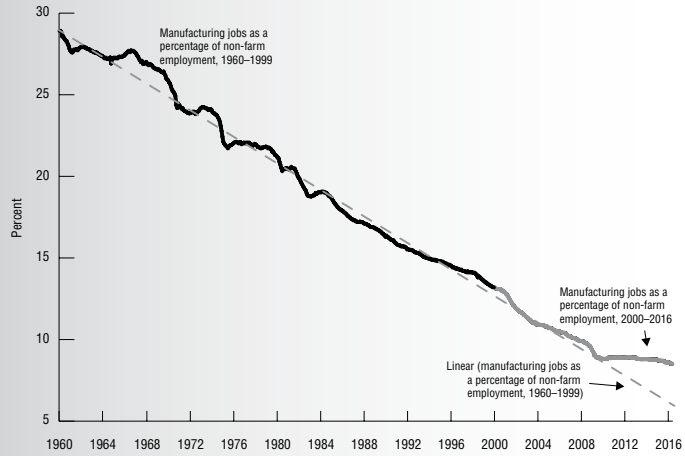
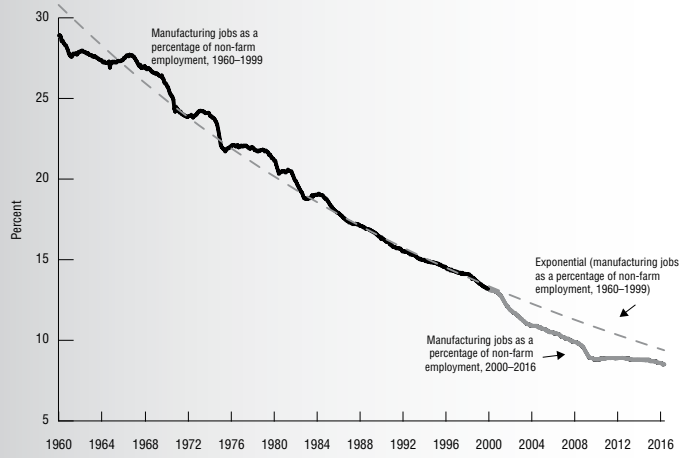


Figure 2 Manufacturing Jobs as a Percentage of Non-Farm Jobs With Exponential Trend Line For 1960 to 1999, BLS



Let me be clear. Though Autor, Scott, and I say that loss of competitiveness caused a not-insignificant share of manufacturing job loss, none of us claim that superior manufacturing productivity did not also play a role, and at least for ITIF, that role is a clear positive, because it enables manufacturers to be more competitive, raise wages, and lower prices.

To further explain away the 5.8 million jobs lost from 2000 to 2009, Katz borrows from Harvard's Robert Lawrence to argue that manufacturing employment has long declined at a standard linear rate, with manufacturing since 2000 actually outperforming the trend line. Recreated as Figure 1, Lawrence's chart appears to show that all is well in U.S. manufacturing, and that job losses are a normal expression of increasing productivity.

However, this chart is misleading because of the chart's assumption of a linear decline in employment. Following the trend line forward, Lawrence's linear model projects manufacturing employment reaching below zero by 2030, a result clearly not possible. However, if we model manufacturing employment based on constant output and steady labor productivity growth per year, the trend line drawn would be exponential, not linear. Under this assumption, employment will decline over time but at a shallower rate and would never reach zero. Applying an exponential trend line (Figure 2) to manufacturing employment share clarifies the impact of the 2000s. Yes, we would have expected some continued decline in the share of manufacturing jobs from productivity, but not the severe fall we saw after 2000, the year China joined the World Trade Organization.

If the U.S. manufacturing sector had not lost global competitiveness, in considerable part from unfair foreign trade practices, there would be more manufacturing jobs. Being clear about this does not mean a rejection

So much for the comforting claim that it was technology that killed manufacturing jobs.

and vilification of trade, as Katz and his colleagues in the Washington trade consensus rightly dread. Rather, it leads to an honest assessment of the United States' need to improve its global economic competitiveness through much tougher action against foreign mercantilism and a more robust domestic traded sector competitiveness agenda of the kind ITIF has articulated in reports like "The Case for a National Manufacturing Strategy" (2011).

Continuing to tell a "just so" story about how globalization is always good and that virtually none of the jobs losses were due to trade is not only an abdication of the responsibility to speak truth to policymakers and voters, it's now crystal clear that it's bad political strategy. Given that virtually the entire U.S. trade policy community was willing to present a united front that trade has not hurt the econ-

Katz rejects the argument that foreign competition, much of it from China, was responsible for a significant share of the unprecedented U.S. manufacturing job losses in the 2000s.

omy, it's clear that most voters weren't buying it, giving them one more reason to reject Washington insiders as untrustworthy and out of touch. Sugarcoating reality in hopes that the "masses" will be duped is never a good strategy.

It's time for a new approach that retains the core insight that market-based trade and deeper global economic integration is good for the United States and the global economy, but adds the realization that growing and systemic foreign mercantilism coupled with the absence of a national competitiveness strategy is a recipe for economic stagnation and turbulent politics. John Judis aptly explains this in his new book, *The Populist Explosion: How the Great Recession Transformed American and European Politics* (Columbia Global Reports, 2016).

Now the Trump administration has a mandate to respond, and hopefully they will balance the need to take a hard look at how to more effectively combat foreign mercantilism, while at the same time not retreating from global economic engagement. But if they get the balance wrong between tough enforcement coupled with open markets, the answer cannot be for Mr. Katz and his fellow travelers to demand a return to the failed doctrines that got us into this mess. They need to be vocal advocates of a "third way" on trade, beyond unalloyed free trade on one side and left-wing protectionism on the other, with the support of a robust national competitiveness policy. Only then—after a modicum of faith in globalization is restored—can we reinitiate the pursuit of seeking deeper global integration, but this time, done right. ◆