The Great *Betrayal*

How America's elites are failing to confront the challenges of trade politics.

By William H. Overholt

Once every couple of generations, the United States faces a single great challenge that will determine much of its fate for decades. This generation's challenge is the vanishing of manufacturing employment. U.S. elites are failing the challenge.

Manufacturing employment is disappearing the way agricultural employment once did. In the early United States, almost the whole population worked on farms. By 1870 it was down to 50 percent, and now 2 percent. The decline did not occur because the United States "lost" the jobs or because some other country stole them through unfair practices. It occurred because American agriculture became so efficient.

Now manufacturing is becoming extraordinarily efficient. Contrary to Washington political rhetoric, U.S. manufacturing output continues to rise at about the same rate as it has done historically (Figure 1), and Americans make the world's most sophisticated manufactures—the best airplanes, the best computer chips. That Americans make computer chips rather than cheap socks is a success, not a collapse.

Because of rising efficiency, manufacturing employment has declined since 1977. More importantly, manufacturing employment as a share of total employment has declined continuously since World War II (Figure 2). This efficiency-driven trend started before Japan was a major exporting power, continued through the 1990s when Japan's economy was a mess and China's currency was overvalued, and will persist as long as the United States has rising productivity.

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Once U.S. politicians blamed the decline on unfair Japanese competition, now on Chinese. Globalization does indeed cause some job loss, but only a fraction. We now have more than a decade of studies by leading scholars, mostly clustering around findings that the percentage of job declines attributable to globalization is in the mid-teens. The most recent studies have come up with numbers from 13 percent (Ball State researchers) to 21 percent (Autor and colleagues, focusing on the distinctive period after China joined WTO and when the digital and robotics revolutions hit full force). So most of the decline is caused by better technology and better organization. Combining the studies, a fair estimate is that one "lost" job out of six or seven is caused by globalization. Moreover, the globalization job losses just constitute an acceleration of something that will eventually happen anyway.

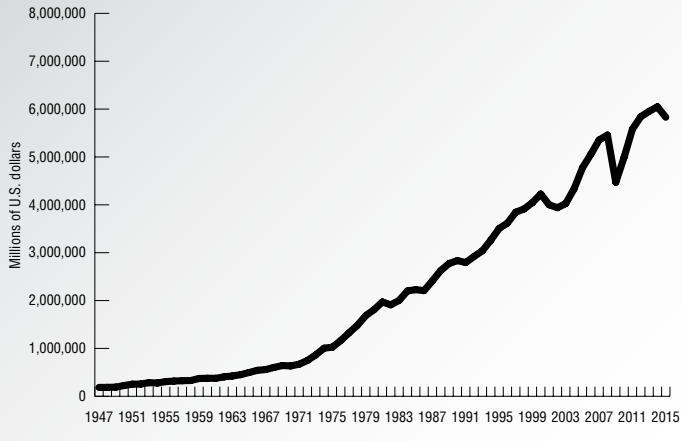
The technocratic center, symbolized by Clinton, has been spineless in defending the truth and has abdicated the moral imperative to prioritize displaced workers.

These trends of manufacturing success and job declines caused mainly by technology are no secret. Leading newspapers have published the results prominently, but politicians of both parties have found it convenient to ignore well-established facts. Donald Trump and Senators Bernie Sanders (I-VT) and Chuck Schumer (D-NY) are co-conspirators in this post-factual campaigning. All find it convenient to blame China.

Why? Because interest groups dominate the Washington conversation and both parties are beholden to constituencies with an interest in the post-factual illusion. Democrats depend on unions that see protection of current jobs, not helping workers prepare for the future, as their task. They see every gain for workers in poor countries as a loss for U.S. workers. Preparing the workforce for a changing future could threaten union leaders' power. A key indicator of this mentality is the exclusive focus by union leaders and Democrat politicians on bringing back manufacturing jobs, an impossibility; if they really cared about workers, they would focus on preparing them for expanding parts of the typically more lucrative service sector. Likewise, as part of the political conversation, politicians speak as if "service jobs" means the same as "flipping hamburgers at McDonalds." Of course, the reality is that most U.S. jobs are service jobs and their average pay and conditions are much better than manufacturing jobs. But political rhetoric has convinced most Americans otherwise. On a radio show where I spoke, people called in to say, why would anyone want a service job? Well, Donald Trump wanted one—and has one.

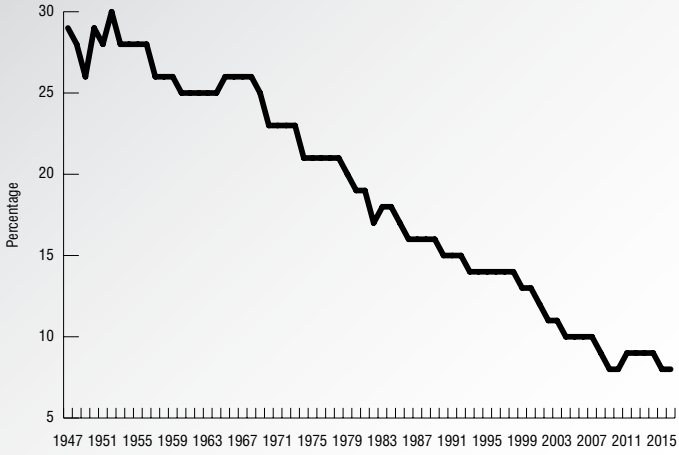
A late 1990s conversation focused the issue of union policies for me. My employer, Bankers Trust, had invited leading U.S. labor leaders to a conference in Sydney. After my speech, AFL-CIO head John Sweeney had the misfortune to be seated next to me for three hours at a dinner on an island in Sydney Harbor. After a long, somewhat heated conversation about sweatshops in China, which I pointed out were raising wages faster than had ever happened in U.S. history, and technological change in the United States, he finally said, "Look, Mr. Overholt. My job is not to care about the wages of Asian workers. My job is not to care about future jobs for American workers. My job is to keep the jobs that my workers have now." Honest and clear. But not helpful for U.S. leaders preparing the nation for inexorable change.

Figure 1 U.S. Manufacturing: Real Gross Output



Source: U.S. Dept of Commerce, Bureau of Economic Analysis, author's graph

Figure 2 Employment Ratio: Manufacturing to Total Non-Farm (1947–2016)



Source: U.S. Department of Labor, Bureau of Labor Statistics; author's chart

If union leaders want to build barriers against loss of manufacturing jobs, they should advocate building walls around Silicon Valley and Boston's Route 128. But it is politically more convenient to confront China.

Republicans reject reality for different reasons. If you acknowledge the inexorable disappearance of manufacturing jobs, and the fact (documented by MIT Professor David Autor) that, without government help, whole communities stagnate, then you must authorize the government to analyze the areas of loss and gain, and follow through by spending money to retrain workers and help them move. However, to avoid taxation, wealthy Republican constituents will denounce expanded government authority and expenditures as socialism. As with union leaders, this is short-sighted; if you don't help workers, populist movements will repudiate globalization. And when right-wing populism fails, left-wing populism will inexorably follow. Thus American workers are betrayed by the only institutions that could help them: the major political parties, the unions, and the most politically active wealthy.

Politicians divert attention from reality. Take the relentless bipartisan accusations about China's currency. By the U.S. Treasury's criterion (a trade surplus exceeding 3 percent of GDP), it has been six years since China's currency was undervalued. Recently China has spent hundreds of billions of dollars keeping its currency overvalued (a policy that harms China's exports and facilitates America's)—a principal reason why China's foreign exchange reserves have declined by $1.1 trillion. But senators such as Chuck Schumer continue their outraged denunciations of China for unfair currency manipulation. President Trump, during his campaign, has threatened a 45 percent tariff on China. That number comes from the most extreme estimate of Chinese currency undervaluation a decade ago; even the author of that controversial estimate, Fred Bergsten, has testified that China's currency is no longer overvalued.

Similar diversionary nonsense is regrettably omnipresent. As former Treasury Secretary Lawrence Summers has recently pointed out, tariffs are already so low that blaming NAFTA and the TPP for job losses and potential losses is mathematically absurd. Michigan politicians blame China for Detroit's job woes, but those jobs haven't gone to China. The number of hours it takes to make a car is now a small fraction of what it used to be. And China saved all the jobs at GM. Without profits from the China market, and pepped-up Buick styling provided by Chinese engineers, GM would have collapsed well before the financial crisis and even an Obama-style bailout couldn't have saved it.

Confronted forthrightly, the jobs challenge can be surmounted. Germany has done well because company boards include workers and unions are more forward-looking. The Scandinavian countries have done well, at the cost of high taxes. During 1994–2003, China lost 45 million state enterprise jobs but successfully moved most of the workers into services and retired the residual minority on generous pensions. In the autumn of 2014, at Beidaihe, Chinese leaders had a serious discussion of the implications of their calculation that it is now cheaper to manufacture most things in California, where low-skilled labor, energy, and regulatory costs are cheaper than in China. China lost five million manufacturing jobs between 2014 and 2015 but continues to do better than Washington at taking care of displaced workers—because its politicians have the integrity to address the real problem rather than blaming foreigners.

Donald Trump, Bernie Sanders, and Chuck Schumer are co-conspirators in this post-factual campaigning.

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(They could blame the West, because imported Western technology and management systems create their job losses. But they focus on solving their domestic problems.)

The drive to blame China and Mexico and advocate protectionism is led by the political extremes—Trump, Sanders, and reactionary union leaders. The technocratic center, symbolized by Clinton, has been spineless in defending the truth and has abdicated the moral imperative to prioritize displaced workers. The average rich country spends an inadequate 0.6 percent of GDP helping the displaced; the United States spends 0.1 percent and largely wastes that because of patronage politics and the obsession with manufacturing jobs.

Domestically the cost of this betrayal is a politics of rage, rather than rational discussion. That has given us the chaotic Trump presidency. Internationally the cost is likely disruption of the relationships with China over protectionism and with U.S. allies over economic leadership, climate change, and immigration. America's future depends on creation of a movement that will force Chuck Schumer to stop the diversionary nonsense about China's currency; force House Speaker Paul Ryan (R-WI) to acknowledge that free trade and rapid growth are only possible if the country takes care of its workers; and insist that the center develop both a spine and a heart.

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Before long, the United States requires an even deeper conversation about jobs. In the short run, there are and will be millions of unfilled jobs in a wide range of sectors from elder care to technology. But some scholars think that half of current U.S. jobs will be displaced well before mid-century. Will new sectors arise? Will retraining help? Must we spread the benefits by offering everyone more leisure? If our politicians would get serious, we could have an uplifting debate and lead the world in achieving the benefits of globalization in a socially sustainable fashion. ◆