

## **The U.S.'s Decades-Long Retreat from Globalization**

**Adam Posen, Peterson Institute for International Economics**

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Michael Klein:

I'm Michael Klein, executive editor of EconoFact, a non-partisan, web-based publication of the Fletcher School at Tufts University. At EconoFact, we bring key facts and incisive analysis to the national debate on economic and social policies, publishing work from leading economists across the country. You can learn more about us and see our work at [www.ecnofact.org](http://www.ecnofact.org).

Michael Klein:

Globalization gets a bad rap. Increased international trade is blamed for de-industrialization and the loss of middle-class jobs in manufacturing. International capital flows are seen as a source of economic destabilization. Fears about immigration raise concerns that fuel nativism and xenophobia. These views contrast with many of the lessons of basic economics about the benefits of voluntary exchange, the opportunities provided by immigration, and the advantages of financing capital from abroad. So, maybe economists should speak up more. One who has taken up this gauntlet, is Adam Posen. Adam published an article in the most recent issue of Foreign Affairs entitled, The Price of Nostalgia: America's Self-Defeating Economic Retreat.

Michael Klein:

Adam is well positioned to make this case. He's contributed to research and public policy on a wide range of issues, such as monetary and fiscal policies, economic integration and China-U.S. economic relations. Adam served seven terms as a member of the panel of economic advisors to the U.S. Congressional Budget Office, and a three-year term on Bank of England's rate setting Monetary Policy Committee between 2009 and 2012, during the recovery from the financial and economic crisis.

Michael Klein:

And perhaps most importantly, he served since 2013 as a president of the Peterson Institute for International Economics, one of the preeminent think tanks in this country. Adam, welcome to EconoFact Chats.

Adam Posen:

Thank you for having me to EconoFact Chats, Michael, I'm a listener.

Michael Klein:

Well, I'm glad to hear that. You're also a speaker now, today, so that's good. Adam, there's a general perception that the United States has been on a steady path of ever increasing globalization over the past half century. But in your Foreign Affairs article, you argue that the country has on balance been withdrawing from the international economy since the beginning of this century. Can you explain what brings you to that conclusion?

Adam Posen:

Yes. And, we have some very simple facts of the sort you at EconoFacts put out, on the PIIE website to establish this. Michael, when you look at what the U.S. has been doing for the last 20 years, the share of trade, imports plus exports and total GDP -- has been flat to declining in a world where all the other

countries pretty much have been expanding their trade share and GDP, the other industrial democracies, China, every major economy. The U.S. has had declining immigration inflows for 30 years. Trump made it much worse and of course was much more barbaric in his treatment of migrants.

Adam Posen:

But the fact is, we're at a fraction of the immigration rate coming into the U.S. that we were 10, or 20 years ago or 30 years ago. And again, even countries like Japan and France have raised their immigration share over recent years while the U.S. has gone backwards.

Adam Posen:

Foreign direct investment, the idea that we allow the Chinese, Europeans, Japanese, whoever, to come in and take over companies here has been flat in nominal terms, and therefore declining in real terms over the last 15 years. And, the amount of greenfield foreign direct investment, people really taking things over and building new plants in the U.S., that's gone way down. So you look at all these things, and then you look at things like policies about what discourages foreign direct investment, or the U.S. willingness to engage in trade deals, which the EU, Japan, Australia, China, and even India are doing. The U.S. has been retreating from globalization for roughly 20 years on every major measure.

Michael Klein:

Well, that's a pretty compelling set of facts and statistics Adam. In your article you write, "What the United States needs now is greater exposure to pressure from abroad, not protectionist barriers, or attempts to rescue specific industries in specific places."

Adam Posen:

Yeah. What I think I'm worried about is there is this nostalgia, as I titled the article, in the political class in the U.S. and among a lot of people, for this idea that we ruled the world when we had a bunch of people working steel mills and auto plants, and that this was great. And, we got to get back to that. And, President Trump talked a lot about helping those industries. President Biden has made it clear, he wants to create more of those jobs. And, I think this is mistaken in a lot of ways. There are the traditional economic reasons about the costs of doing that tend to be very bad in cost benefit [inaudible 00:05:36] terms, and they get pushed on to other people. But, I want to emphasize two other lines of problem. The first is, it's just not realistic.

Adam Posen:

Manufacturing employment has been declining throughout the world, even where manufacturing value-added goes up, even where you export, even in Germany or Japan. And, manufacturing employment's been declining for many years, even in China, manufacturing employment peaked in 2012. And so, just realistically, even if you were able to get manufacturing employment up a couple percent, that would only get us to 12% say...of people.

Michael Klein:

Adam, What do you think some of that is technological change, that you don't have that many people working in a steel mill anymore, that things have become automated?

Adam Posen:

I think you're absolutely right. Robert Lawrence has written about this. Many other people have written about this. What we've seen is classic productivity growth. You've substituted various forms of

automation, and machinery and capital for labor. And, we're able to produce the same amount of stuff and sometimes better stuff with less labor hours. So, this is why it's common across the world, it's technology.

Michael Klein:

So, what about those who have been hurt by international competition? Economists going back, at least as far as David Ricardo in the early 19th century have recognized that international trade, while beneficial to an economy as a whole, does create winners and losers.

Adam Posen:

Absolutely. But, so does every act of commerce. I mean, not most acts of commerce are win-win, but [inaudible] economy always has change and churn, whether it's from technology, from trade, from social movements, from shifts in preferences, from political changes. And so, this is why I talk about the problem of nostalgia is that, it wasn't some beautiful past period in which we want to freeze the economy the way it was. And again, this is not just an efficiency argument. For the 85 plus percent of non-college educated workers who are not in manufacturing, who are mostly urban, who were mostly people of color or women, say in service jobs, front sector service jobs, they've had churn, and turnover and had to adapt through the years, whether it was to white flight from the cities, whether it was to secretaries being displaced by word processing. And so, change is part of life. And so, we have to talk about how to help all workers with change and not focus on stopping change.

Michael Klein:

At The Peterson Institute, you do a lot of impressive work, you and the economists there. What are some of the best estimates about the effect of international competition on the United States?

Adam Posen:

There're a number of aspects of that, Michael, and I know you've covered that with some of my colleagues from Peterson and other scholars. I would emphasize two. The first is, as Gary Hufbauer, among others from Peterson is that, you can look in and see how much cost benefit you get, purchasing power, variety of goods, availability of goods and services that you wouldn't otherwise have without trade. And, that's in the order of a few thousand dollars a year for the average American family.

Michael Klein:

So, that's like the example that, if you think about what you did this morning, you'll find that you consumed a lot of international goods, foods, manufactured goods, and so on, and people don't readily recognize that.

Adam Posen:

Yeah. And I mean, I think people may realize that an iPad is assembled from components around the world, and assembled in places outside the U.S., but I think they don't recognize that some of the foods we eat, it's not just they're important, but their very existence is only comes to us through trade. The varieties of apples, the varieties of grains, the varieties of coffee. And this isn't trivial. This improves people's lives, and gives them more they can purchase. But, I also want to stress the limited nature of trade as a part of the effect on people. So, in the U.S. economy every month, millions of people turn over jobs. And, the China effects are very small, for example. The top estimate is 2 million jobs in manufacturing may have been displaced by China. There's arguments it's much less than that. But say it's even 2 million jobs over 15 years, over that same 15 years in a workforce of a 150 million, you're losing 130,000 workers having to change jobs a year. And, we have 20 million workers changing jobs a month. It's a very different world.

Michael Klein:

So, this is what economists call churn. And in a dynamic economy, there's a huge amount of churn in labor markets.

Adam Posen:

Some churn is voluntary and some churn is driven by the business cycle. And, some churn is Blockbuster video stores go out of business, or people stop eating as much in restaurants, and then there's churn. And, some people choose voluntarily to go to new jobs. We can't cut off churn. We just got to see it for what it is.

Michael Klein:

So, they're very few typewriter repairman or television repair shops anymore, because of just technological change, and the way the economy has evolved. So, the economic effects have been somewhat limited, but the political ramifications have been very large, right?

Adam Posen:

Yes and no. I mean, as the authors of the so-called China Shock study, Autor, Dorn, and Hanson, or the noted columnist, Paul Krugman, of course, noted economist, Paul Krugman, have pointed out, you can see individual places where an industry or a particular employer goes away because of competition and people get angry about that. But, what I'm trying to emphasize is that this is overblown. It's overblown, because we're only paying attention when it's the rural white folk who are getting the feeling, the competition, whereas others feel it all the time. It's overblown because we are trying, or at least the U.S. has, successful governments have been trying to insulate people from this international competition. Hasn't really worked...

Adam Posen:

And frankly, it's a political issue. I think Michael, you and I have to recognize as economists, people sometimes get angry about things that are not necessarily economic. I think a lot of people are angry about change in relative status, and not so much about what actually happened to them economically.

Michael Klein:

But Adam, do you think, nevertheless, all the caveats that you've been raising, there are legitimate concerns in some trade issues, say intellectual property, or labor and environmental standards?

Adam Posen:

Absolutely. I think, it is legitimate to talk about a race to the bottom being something you want to constrain. Environmental standards are now critical. And, USMCA, the revised NAFTA has some of that. CPTPP, the trade agreement in the Pacific that doesn't involve the U.S. has some of that. And, with confronting the need to decarbonize, we're going to need more of that. Similarly in taxes, it's great to see the Biden Administration, Treasury Secretary Yellen, saying, she wants to join agreements on international minimum taxation for corporations. There are standards to be set. They just shouldn't be used as a stalking-horse against trade, per se.

Michael Klein:

Another statement in your Foreign Affairs article is you say, "nostalgia is not a good look for a progressive agenda." What did you mean by that?

Adam Posen:

What I mean is the perception now is a lot of people are out there saying, neoliberal economist or economists in general hijacked policy for the last couple decades, and they sold out American workers in pursuit of efficiency. And you hear this on the right and you hear this on the left, not equally and not in the same terms, but a common element. And my view is that, at least if you're thinking in progressive terms, that kind of nostalgia, that kind of stab in the back myth is not progressive. Because, I'm sorry to keep repeating this, but what you're doing is you're ignoring the 85% of workers who were not in the trade affected industries, who are in the service industries, who've already had to make adjustments. We should be focusing our efforts on how to help all of them.

Michael Klein:

As you write in the article, you say, "it privileges the status quo, and locks in advantages of those already in a good position."

Adam Posen:

Thank you. It's better in writing than when you read it.

Michael Klein:

Well, you're doing a good job of speaking about it as well. One issue that has arisen though, is that many communities, especially small communities are not well-diversified. And, a single adverse outcome can lead to a spiralling down. This could be because of trade, but it could also come about for other reasons as well. And, I've discussed this topic in previous episodes with Kadee Russ, who's worked with Jay Shambaugh focused on smaller cities and towns. And also with Matt Kahn, whose book examined the fate of six large post-industrial cities. Should we look beyond helping individuals towards helping communities writ large?

Adam Posen:

No one should be abandoned simply because of where they live. And, no community deserves to decline, so there's no joy in talking about this. But, there's also no reliable, or consistent method we have of reviving local communities when they have a dominant employer or industry decline. Even when a lot of resources are devoted to this effort. I mean, if we look at West Virginia, whose senators brought home the bacon for years and its income level remains low, and it still remains dependent on mining. We look at Germany and Italy, where they had East Germany and West Germany or North and South Italy, and they've put very generous subsidies and investments in these regions.

Adam Posen:

And, it may help humans along the way to adjust, but it doesn't seem to restore the employment or bring these regions up. I think we have to also think about the fact that it's not always good to have one dominant employer in one local place and people tied to it. There's evidence from the Economic Policy Institute and from a young economist, Anna Stansbury at Harvard who showed that monopsonists, people who are the dominant employer in a given place can take advantage of the workforce and the town sometimes. So, we have to balance the realities of community aid, and emphasize more, I think the individual aid.

Michael Klein:

And, we have a memo by Ioana Marinescu at Penn, who talks about monopsonists, and the way in which they can keep wages lower in places where they're the dominant employer. And, as I mentioned in my EconoFact Chats episode with Kadee Russ, I come from a town called Gloversville in Upstate New York,

where they don't make gloves anymore. And, it's been pretty desperate there since, but the town next to it, Johnstown was able to pivot towards doing other things. So we have, sort of side-by-side, an example of a town that really didn't survive, and didn't rebound, and another town that did somewhat better. So, Adam, what do you see as approaches that would work? Would these approaches help keep the U.S. integrated in the world economy, and should they?

Adam Posen:

I think the first recognition has to be that the U.S. has already tried withdrawing from the world economy pretty consistently over 20 years. And, it hasn't delivered the goods in terms of increasing equality, reducing job churn, making us more dynamic, certainly it hasn't delivered. And so, we have to think about openness. And I think openness, frankly, is something the U.S. can benefit from, because it will force us to recognize how much on our domestic basis, we are letting down our workers, our communities, our people. There are countries that through the years, the U.S. went to them and said, "you should open up to competition, you should liberalize, you should see where you are and that will help you rise up."

Adam Posen:

It's time for the U.S. to recognize there are countries that pay their workers more, that have higher environmental and labor standards. And, we should be using those comparisons, and trade deals and openness of migration to those countries to force us to raise our game.

Michael Klein:

So during this conversation, Adam, we've discussed a number of different pieces of economic research. And, I'd like to close by asking you about the role of economic research in affecting policy. As I mentioned, you're the president of the Peterson Institute for International Economics. It's a very influential think tank, that publishes original research on policy relevant topics from some of the leading economists in the country. How do you see research informing policy?

Adam Posen:

Well, first, I'd like to point out that EconoFact, you and your colleagues are trying to do a similar thing to us at Peterson Institute, you're promoting evenhanded, evidence-based, non-partisan research. You're trying to bring quality, economic evidence to the public debate. And, that's where this starts, is to be honest, to be consistent, to show your work, and try to affect the public opinion. I mean, this article I wrote, which you kindly are talking with me about is not meant to be just a virtue signaling, or some drum beat, it's meant to try to persuade people to reassess.

Adam Posen:

But then secondly, when you talk about affecting policy, whether it's EconoFact or the Peterson Institute, you basically try to make clear the advantages to certain policymakers of a change. And, it's always difficult, because you don't just want to say, in theory, we could do the optimal thing and you're not doing that, that's not very useful. At the same time, you don't want to be taking the status quo politically or economically as given. So, it's a judgment call of how far you want to push the envelope. And realistically, one has to feel like a baseball player, that batting .250 or .300 over the course of a season is good. Meaning, you write a lot of proposals, you push for a long time. And if you got one or two of them to move, that's a really good outcome.

Michael Klein:

Well, that's encouraging, except I played tennis. And, if you get one quarter of your first serves in, that's not so good.

Adam Posen:

Well, analogies don't work for everything, but...

Michael Klein:

Yeah. We'll stick with baseball here. So Adam, thank you very much for speaking with me today on these really important issues. And also, I would thank you for your stewardship of the Peterson Institute for International Economics, and all of the important work that you do there. And the way that you do, in fact, reach out to policymakers, and try to make policy more rational and better as well. So, thanks again.

Adam Posen:

Thank you for this opportunity, Michael, and to EconoFact partnering with us in this good cause.

Michael Klein:

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