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Productivity Growth, Not Trade, Is Cutting Manufacturing Jobs

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In an exercise of political demagoguery reminiscent of Ross Perot's prediction of a "giant sucking sound" resulting from adoption of the North American Free Trade Agreement (NAFTA), presidential candidates are starting to suck common sense and economic rationality out of the 2008 election debates. At the Democratic debate in Las Vegas on November 15, the candidates unleashed a torrent of anti-trade rhetoric that ranged from Senator John Edwards' description of trade agreements past, present, and future as "a complete and total disaster" to Senator Chris Dodd's (D–CT) call for a moratorium on trade from China "for eternity."[1]

There is no doubt that the candidates' anti-trade messages are in tune with voter sentiments. A *Wall Street Journal*/NBC News poll published this month shows 60 percent of Americans blame trade for at least part of the economic woes they perceive in the country.[2] The facts, however, tell a different story about trade. According to a wide range of measures, the U.S. economy has performed better as the trade environment has become freer. U.S. leaders must reject anti-trade demagoguery and embrace America's tradition of optimism in the face of change and progress.

The Benefits of Trade. NAFTA itself is the perfect example. According to reports issued last month by the Department of Commerce, the U.S. economy grew by 50 percent during NAFTA's first 13 years.[3] Contrary to Perot's gloomy predictions of job losses, the U.S. economy actually added 25 million jobs during this period. The average unemployment rate since NAFTA has been only 5.1 percent, versus 7.1 percent during the prior period. U.S. manufacturing output rose 63 percent during NAFTA's first 13 years, compared to only 37 percent in the period before. Compensation for manufacturing workers increased 1.6 percent annually during NAFTA, versus 0.9 percent annually before.[4]

What accounts for the disconnect between this positive record of economic improvement and voters' negative sentiments? A variety of factors have combined to increase workers' insecurity, even as their actual economic situations, on average, have been improving strongly. In a good year for the U.S. economy, about 70,000 businesses fail.[5] Many more are created to replace them, but 70,000 business failures is a significant number by any reckoning. Businesses fail for diverse reasons. Some can't compete with other companies making similar products. Others fail because consumer tastes change. In terms of employment, the failure of 70,000 firms translates into about 15 million jobs lost each year.

Almost none of this job loss has to do with trade. During a 2004 speech, Federal Reserve Chairman Ben Bernanke estimated that only 2 percent of U.S. job losses were due to foreign trade.[6] He attributed 1 percent of job loss to outsourcing. So, in Bernanke's estimation, a total of 3 percent of job losses

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results from trade or foreign competition. Such small negative effects are overwhelmed by the consumption and investment benefits of trade, which are estimated to amount to as much as $10,000 annually for a family of four.[7]

Productivity Gains. The explanation for these shifts is that productivity has been exploding in the United States and throughout the world. Technological change and innovation are making it possible to produce more output with less labor. In the U.S., that labor is shifting to jobs in the services sector and other parts of the economy. William Ward, a professor of applied economics and statistics at Clemson University, has estimated that 7.5 million of the 17.7 million manufacturing jobs that existed in the United States in 1990 would not have been needed in 2004 because of productivity growth.[8]

The growth in manufacturing productivity is a worldwide phenomenon. According to Ward, productivity gains in China between 1995 and 2002 would have eliminated the need for about 37 million Chinese manufacturing jobs. Actual manufacturing job losses in both China and the United States were far less than these numbers, because while productivity gains were reducing demand for manufacturing workers, gains in GDP were increasing it. However, the total number of manufacturing jobs went down in both countries.[9]

One of the biggest mistakes of trade opponents is thinking of the global economy in static terms: Jobs lost in the United States must mean jobs gained elsewhere. This representation of trade as a zero sum game is simply not accurate. The U.S. and world economies are dynamic things, growing and evolving daily. Rapid technological advances are driving down the cost in labor of manufacturing around the world. To resist this trend by adopting protectionist measures that subsidize less efficient producers is to buy into a world vision of lower productivity and slower growth, a poorer world in which everyone has less and produces less than they otherwise could.

Fear Versus Optimism. This is not a new debate. It goes all the way back to the beginnings of the industrial revolution and those early English weavers, known as Luddites, who destroyed the new textile knitting frames that threatened their traditional production practices.

The anti-technology story can be emotionally compelling. The plight of workers who lose their jobs, particularly if they represent vulnerable groups such as the elderly or youth with few skills and uncertain prospects, strikes a chord because most people yearn for a life narrative of stability and security. When people are tossed by the winds of chance—even winds blown by a whirlwind of

1. "Democratic Debate Transcript, Las Vegas, Nevada," *Council on Foreign Relations*, November 15, 2007, at *www.cfr.org/publication/14820/democratic_debate_transcript_las_vegas_nevada.html* (November 26, 2007).
2. *Wall Street Journal*/ NBC News Poll November 1–5, 2007, Hart/McInturff Poll, #6077, November 2007, at *http://online.wsj.com/public/resources/documents/wsjnbcpoll20071108.pdf* (November 26, 2007).
3. U.S. Department of Commerce, International Trade Administration, "NAFTA – A Success for Trade," October 2007, at *www.export.gov/fta/NAFTA/NAFTA_success.doc* (November 26, 2007).
4. Office of the U.S. Trade Representative, "NAFTA Facts," *NAFTA Policy Brief*, October 2007, at *www.ustr.gov/assets/Trade_Agreements/Regional/NAFTA/Fact_Sheets/asset_upload_file366_13495.pdf* (November 26, 2007).
5. "Economy: Corporations and Other Types of Businesses," *TheUSAOnline.com*, at *www.theusaonline.com/economy/corporations.htm* (November 26, 2007).
6. Remarks by Governor Ben S. Bernanke at the Distinguished Speaker Series, Fuqua School of Business, Duke University, Durham, North Carolina, March 30, 2004, as published by the Federal Reserve Board at *www.federalreserve.gov/boarddocs/Speeches/2004/20040330/default.htm* (November 26, 2007).
7. Executive Office of the President, *2007 Economic Report of the President*, October 4, 2007, at *www.gpoaccess.gov/eop/index.html* (November 26, 2007).
8. William A. Ward, "Manufacturing Productivity and the Shifting US, China, and Global Job Scenes—1990 to 2005," *Clemson University Center for International Trade Working Paper 052507*, August 4, 2005, at *http://business.clemson.edu/cit/Documents/Mfg%20Employment%20Working%20Paper%20draft%208%202005.pdf* (November 26, 2007).
9. Ward, "Manufacturing Productivity and the Shifting US, China, and Global Job Scenes—1990 to 2005."

progress—it invokes one of the oldest terrors of the human race—losing everything and being unable to care for oneself and one's family.

The manner is which a society confronts these risks says a lot about the character of its people. The genius of America, both politically and economically, is an optimism that has always looked ahead and moved forward, embracing change and progress. This outlook makes America different from many other countries and societies, and accounts in large measure for its success in a globalized world. A presidential debate in which candidates vie with each other to see who can pander most to popular prejudices and fears threatens that success.

Psychologists trained in communications skills stress the importance of differentiating between conversations that are about feelings and those that are about information. The disconnect between cold economic facts and hot feelings of economic insecurity make the trade debate one of the most volatile in the political discourse. In a rapidly evolving economy, many Americans who lose their jobs quickly find others that are just as good or even better. Yet, those stories get less attention, because they lack emotional appeal. Also, the facts show that consumers gain significantly from the quality, variety, and low cost of goods made available by productivity growth and free trade. Since the benefit from each individual transaction is small, consumers do not necessarily feel better as a result. A political discourse that pits such facts against emotionally charged stories of individual loss can quickly get out of control.

Conclusion. Presidential candidates have a special responsibility to help Americans bridge the gap between emotion and reason in policy debates—in both the political and economic spheres. In discussions on trade, they need to connect voters' sympathy for struggling workers to policies that promise continued growth and real economic benefits. In today's fast-changing world, Americans should not succumb to the temptations of protectionism and its illusory benefits. Leaders must follow the precedent of President Ronald Reagan, who took to heart the slogan of the General Electric Company, for which he was once a spokesman: "Progress is our most important product."

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