China *Didn't* Take U.S. Jobs

My reply to Adams Nager.

BY RICHARD KATZ

In this year, of all years, getting it wrong on whether international trade is destroying millions of American jobs is not just a mistake, it's dangerous. Republican nominee Donald Trump and Democratic runner-up Bernie Sanders have convinced tens of millions of voters that the Japanese, Chinese, Mexicans, and others have "stolen" their jobs or—in Sanders' less inflammatory version—that American multinationals have shipped their jobs overseas. Tough trade actions, they claim, will bring those jobs back. Trump promises to pursue the most self-destructive trade war since the Smoot-Hawley tariff of 1930. Offering steps like a 45 percent tariff on imports from China as the core of his jobs strategy, Trump thundered on June 28: "America has lost nearly one-third of its manufacturing jobs since 1997—even as the country has increased its population by fifty million people. At the center of this catastrophe are two trade deals pushed by Bill and Hillary Clinton. First, the North American Free Trade Agreement, or NAFTA. Second, China's entry into the World Trade Organization."

Now, if it really were true that China's trade practices, fair or foul, have caused the lion's share of the decline in American factory jobs, economists would have no choice but to tell the truth, even if politicians like Trump misuse their findings. However, if it is not true, then economists such as Fred Bergsten and David Autor are inadvertently giving ammunition to a politician whose protectionism they oppose and whose actions,

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according to Moody's, would provoke a recession costing Americans 3.5 million jobs. Trump's sky-high tariffs would not only impose a huge tax on American consumers, thus causing a slump in consumer demand, they'd so disrupt the delicate web of global supply chains as to put out of business innumerable firms in the United States and elsewhere. This is truly a case where the cure is far worse than the alleged disease.

Make no mistake about Trump's capacity for wreaking havoc. Trump promised to use Section 301 of U.S. trade law. This enables any president who doesn't care about the rules of the World Trade Organization, or foreign retaliation, to unilaterally impose punitive tariffs whenever he deems a country's practices "unjustifiable" and/or "unreasonable" and claims that they "burden U.S. commerce."

DID CHINA CAUSE THE DECLINE IN AMERICAN FACTORY JOBS?

In *TIE*'s Spring 2016 issue, Adams Nager of the Information Technology and Innovation Foundation criticized my view that rising U.S. productivity is responsible for the decline in U.S. manufacturing jobs; instead, he insists that it was imports from China that caused the majority of that job loss. I do not disagree with Nager's view that many of China's trade practices are unfair and mercantilist, even illegal, and that the United States needs to act. Nor do I disagree that, for a long time, China had a policy of keeping its currency undervalued. Moreover, as I made clear in my articles in *TIE* and *Foreign Affairs,* even though America as a whole benefits from the expansion of global interdependence, some American workers are hurt by it and the United States needs to use some of the benefits of trade to provide transitional help to those workers.

Where we disagree is whether China is the primary cause of the decline in American factory jobs, and whether the "constructive confrontation" advocated by Nager, even if merited on other grounds, will "bring back" those jobs. I recall the same battles in the 1980s and 1990s regarding Japan, which then had almost as large a trade surplus with the United States relative to U.S. GDP as China has now. Japan was accused, in almost the same words, of the things China is now accused of. Even though some of the accusations were true, what was never true was the view that Japan was the cause of America's problems. In fact, the claim that "trade is deindustrializing America" goes back at least fifty years to the 1970s. The proposition that the dynamics of trade suddenly changed with China's entry into the WTO in 2001 shows historical amnesia.

It is true, as Nager complains, that I rely on the "standard" view among economists: that factory jobs declined because a worker today can produce what it took three workers to make thirty years ago, but American consumers are not buying three times as many goods. Consider this: if factory jobs were really shrinking because imports were deindustrializing America, then manufacturing output as a share of overall U.S. GDP would have plunged during 1999–2011, the period when David Autor claims that imports from China destroyed a million American factory jobs. The truth is that, throughout this period, manufacturing stayed level at around its two-decade average of 12.3 percent of real GDP—it was 12.5 percent in 1999 and 12.1 percent in 2011. In short, what is declining is not manufacturing itself, just manufacturing jobs. It's for the same reason that farm jobs plunge even as farming output grows.

If China were really destroying millions of jobs and tens of thousands of companies, one would have expected complainants to lodge a flood of Section 421 petitions. Only seven were launched.

Nager says I "dismiss" those economists who point the finger at China. But which number does he suggest we accept from among those economists he cites: that of Autor, who contends that trade with China caused 17 percent of the total 5.6 million decline in factory jobs; or that of Robert Scott, who claims that China took three times as much, that is, half of the total decline in factory jobs, or Nager's own institution, which claims that the trade deficit took four times as much, two-thirds of the total, or 3.8 million jobs? The differences among these trade critics are so high as to make it impossible to rely on any of them.

For my money, the calculation of Harvard economist Robert Lawrence that trade accounts for 5–10 percent of job losses is closer to the mark. I'd note that Autor's estimate is closer to Lawrence's than Nager's. 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?

Let's look at the data and see which estimate is more in line with the evidence.

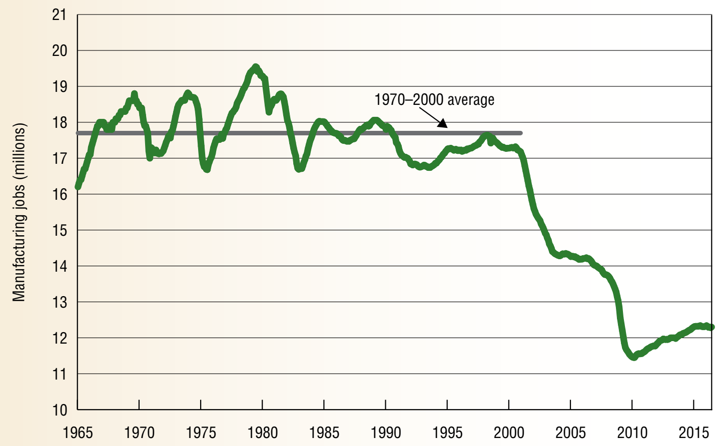
Nager writes: "If productivity really was the culprit, why did U.S. manufacturing employment decline eleven times faster in the 2000s than it did in the 1990s, even though productivity in both decades was essentially the same?" Nager is relying on the data seen in Figure 1, in which factory jobs suddenly fell off a cliff after the year 2000. They have only recovered a bit in the past few years.

Looking at Figure 1, it is clear that something new must have happened. Autor and others point to China's joining the World Trade Organization in 2001, a development that increased China's market access. But a closer look shows this is a huge leap to a mistaken conclusion. It mistakes coincidence for causality.

Take a gander at Figure 2, which is based on an argument put forward by Lawrence. Since the early 1960s, factory jobs as a share of total private nonfarm jobs have declined in a steady, straight-line fashion by about 0.4 percentage points per year. In fact, that straight-line trend can accurately explain about 98 percent of the total variation in factory jobs, a stunningly high level of precision. In Figure 2, the solid line shows the actual job share during the 1961–1999 period; a trend line projects that rate of decline forward through 2016; and the dashed line shows the actual share during 2000–2016. What we see is that the trend line almost exactly predicts manufacturing's share of jobs in 2010. In the following years, the decline in manufacturing's share of total jobs paused for a while, as often happens in recoveries. The point here is that manufacturing jobs did exactly what we would expect them to do based on the 1961–1999 trend. Could anyone look at that chart and be able to tell when China's exports to the United States started climbing?

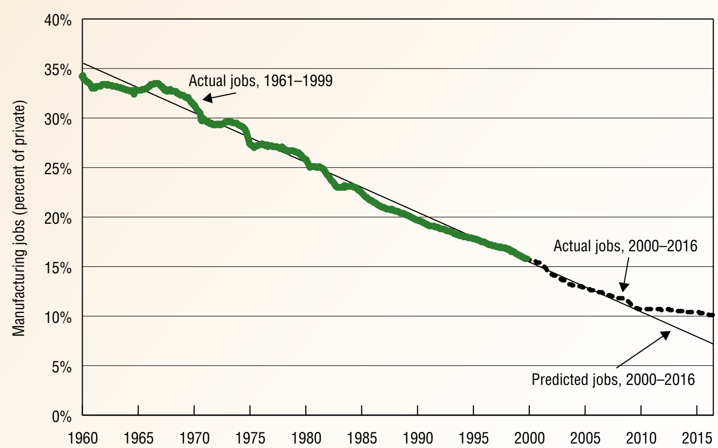
But clearly something did happen to factory jobs beginning in 2000, as we saw in Figure 1. If not China, what was that something? We can see the answer in Figure 3.

Figure 1 What happened to factory jobs after 2000?



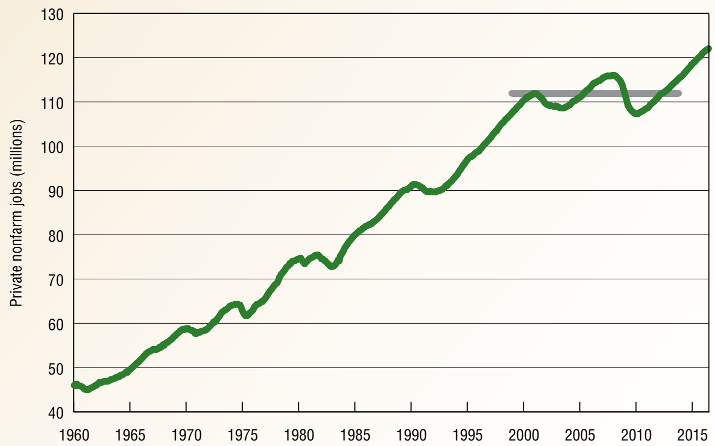
Source: Bureau of Labor Statistics, U.S. Department of Labor.

Figure 2 1961–1999 trend correctly forecasts factory jobs in 2010



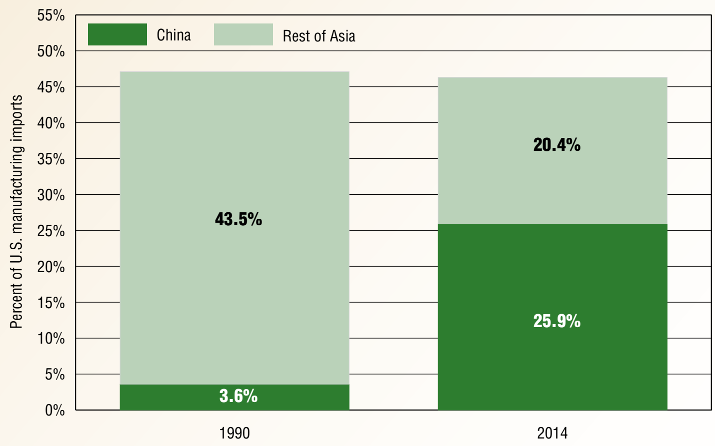
Source: Author calculation using Bureau of Labor Statistics data and concept developed by Robert Lawrence.

Figure 3 Zero growth in *total* private jobs during 2000s



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

Figure 4 China is a way-station for Asian manufacturing exports to the United States



Source: Congressional Research Service

For the first time in the postwar era, the United States suffered a *decade of zero growth* in total private jobs. The great American jobs machine stopped working. Whereas 62 percent of all 18-to-64-year-olds had jobs in 2000, this fell to just 54 percent by 2010 (and is now back up to 59 percent). As long as the total jobs "pie" was growing, a smaller share of that pie still yielded a slice of the same size. But once the total pie stopped growing, a smaller share turned into an absolute decline in the size of the slice. Combine zero growth in total jobs with the ongoing decline in manufacturing's share, and the resulting arithmetic is that factory jobs had to fall by an average of 3 percent per year. In short, the fault lies not in Beijing, but in ourselves.

Does that mean that trade had no impact on jobs? No. But the impact was small. From 1998 through 2010, manufacturing jobs declined by six million. Using input-output tables that show the job content and import/export content of various products, Lawrence found that, even if the U.S. trade deficit had been zero in all those years, factory jobs still would have declined by 5.7 million. In short, trade accounted for just 5 percent of the job loss, 300,000 out of six million. That's equal to the number of net new jobs the United States now creates in just six weeks.

I would note that even trade surplus countries like Japan and Germany have suffered steady declines in factory jobs. It is what happens as industrial economies become more service-oriented.

TOUGH MEASURES WON'T "BRING BACK" THOSE JOBS

Tough measures won't bring those lost jobs "back" to the United States, mainly because very few of the jobs in China's export industries were being done in the United States in the first place.

How do we know this? One reason is Section 421 of U.S. trade law. Under that law, any firm or labor union that felt that a surge of imports from China was causing "market disruption"—even if Chinese exporters did nothing wrong—had the right to ask for temporary protection against the surge. All the petitioner had to prove was that a surge in imports from China was causing it lost sales and jobs, even if other causes were greater. The measure, which ran from 2001 until 2013, applied exclusively to imports from China, rather than to imports from all countries, as is normally required by WTO rules. Beijing had acquiesced to this provision in order to get Washington to approve its entry into the WTO.

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complainants to lodge a flood of Section 421 petitions. In reality, over a dozen years, only seven were launched, almost all related to the steel industry or, in the case of tires, workers represented by the steelworkers union. The International Trade Commission found significant market disruption in five of the seven.

But, why wasn't there a flood of cases? Phil Levy, an economist who served in the George W. Bush administration on a couple of the interagency panels that reviewed these cases, explained why in a recent *Foreign Policy* article. "In each of the two Section 421 cases I heard, the importers made credible presentations that, were tariffs to be imposed, they would switch their sourcing from China to Vietnam, or to India, or Brazil. In one case, the factory move was estimated to take three weeks. In another, contingent contracts were already in place. … So what benefit would U.S. workers have seen in blocking China trade? None. That's why we recommended against imposing tariffs."

Although the Bush administration decided against tariffs, the Obama administration in its first year applied tariffs on Chinese tire imports under Section 421.

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Economist Gary Hufbauer calculated that the tariffs saved a maximum of 1,200 jobs in the tire and related sectors. But their side effects on consumer real incomes eliminated twice as many jobs in other sectors: an estimated 2,500. The tariff cost American companies and consumers a stunning $900,000 per saved job via higher prices, most which went into the profits of American and Chinese tire companies. And that's even before we count the jobs lost from Chinese retaliation.

There's another reason we know those jobs won't come back. Even in goods coming to U.S. shores with the label "Made in China," most of the content is actually made outside of China. According to a study by the Federal Reserve, only 40 percent of the value of that t-shirt you buy at Walmart is actually created in China. In high-tech goods, it's far smaller. Take an iPod, which sold for $300 in the United States, but whose Chinese value consisted of a mere $4 in assembly labor. Because that Chinese assembly was the last stage, under U.S. law, the entire t-shirt or iPod is slapped with the label "assembled in China" and its entire value is counted as an import from China. When a made-in-Japan flash drive came to the United States on an airplane or container ship directly from Japan, it was called an import from Japan. Now that the very same flash drive comes to the United States inside an assembled-in-China smartphone, U.S. import statistics count it as Chinese.

China is a conveyer belt for the exports of dozens of countries in a complex and delicate global supply chain.

That leads Nager to mistakenly blame Chinese mercantilism for America's trade deficit in high-tech products. While computers are the largest single item in China's exports to the United States, 99 percent of those exports are made by foreign-owned firms who choose to locate the final assembly stage in China rather than elsewhere. If tariffs imposed by Trump make Chinese costs prohibitive, those firms will just move their assembly to other countries. Nager echoes the unwarranted dread of the 1980s that Japan was destroying America's high-tech industries.

Most of the increase in America's manufacturing trade deficit with China arises from this statistical shell game, as we can see in Figure 4. Back in 1990, 47 percent of America's entire trade deficit in manufactured goods came from trade with Asia, but China accounted for just 3.6 percent of this. In 2014, by contrast, Asia still accounted for the same share of America's trade deficit in factory goods, but now the share counted as coming from China had risen to 26 percent. But, as we noted above, the majority of the value of those imports "from China" really consisted of value created in Japan, Korea, Thailand, Malaysia—and, yes, the United States itself. About two-thirds of the value of Japan's exports to China consists of parts and machinery used in the China's own exports to the rest of the world. In short, China is a conveyer belt for the exports of dozens of countries in a complex and delicate global supply chain, one which Trump's meat-axe tactics would demolish.

The specter of the Chinese economic juggernaut decimating American jobs is no truer than similar stories in the past. ◆