TESTIMONY TO THE SELECT COMMITTEE ON ECONOMIC DISPARITY AND FAIRNESS IN GROWTH

HEARING ON GLOBALIZATION ON SEPTEMBER 28, 2021

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Submitted by Adam S. Posen[1]

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Thank you, Chair Himes, for inviting me to testify today before the Select Committee on Economic Disparity and Fairness in Growth. The mandate of this Committee is both necessary and commendable. Economic inequality and injustice in the United States, and the human and social harms they cause, must be addressed by the U.S. Congress for the sake of the American people.

Regarding today's hearing subject, the role of globalization in causing our unfair economic disparities, it would be worth paying a large economic price through reduced economic integration with the global economy to lastingly reduce those disparities, if it would work. That approach, however, has already been tried and failed – and not in historical examples of autocracies or non-market economies, but right here right now. The facts are that successive presidential administrations have withdrawn the U.S. from the global economy, putting up barriers to globalization, for the last 20-plus years – and the unfair disparities in our workforce and society have increased rather than decreased. All the other high-income democracies, including ones thought to be more closed than the U.S., such as France and Japan, have actually increased their openness over the same period, and their economies have grown fairer compared to the U.S. and in some ways compared to their own past inequities.

I know this Committee wishes to address abuses arising out of excess corporate concentration and power, out of incumbent interest groups having undue political sway and patronage, out of financial speculation and manipulation disrupting the real economy of employment. Globalization is not a primary source of any of those unfair disparities. In fact, if we want to deal with excessive corporate concentration, opening the economy to competition is a better approach than protecting favored U.S. companies. If we want to prevent the exploitation and underpayment of workers, we need to focus equally on all workers' displacements and adjustments, not just those who happen to get sympathy for being in 'trade-impacted' industries. If we want to speed the recovery and reduce the pain when a locally significant employer shuts up shop, we have to protect people not places. Globalization in fact should be

[1] For identification purposes, President, Peterson Institute for International Economics. The views expressed and any errors in this testimony are solely those of the witness, and those views are not necessarily shared by any members of the staff or of the Board of Directors of the Peterson Institute.

used to raise labor standards in the U.S. and push us to install the socially just programs for all citizens that all other high-income democracies already provide on a universal basis.

THE U.S. HAS ACTUALLY BEEN DEGLOBAZING FOR MORE THAN TWO DECADES

Contrary to popular belief, the United States has, on balance, been withdrawing from the international economy for the past two decades. For all the claims that globalization is a major source of the country's economic disparities, the reality is the opposite: inequality has risen as international competition has fallen. In fact, the country suffers from greater economic inequality and political extremism than most other high-income democracies—countries that have generally increased their global economic exposure. That is not to say that competition from China and other countries has had no effect on U.S. workers. What it does say, however, is that the effect has occurred even as the U.S. government has swum against the tide of globalization, suggesting that more barriers to trade, investment, and immigration are not the answer.

Income inequality rose faster during the 1980s than in the 1990s or since 2000 (see Figure 1). That was a period of the Reagan Administration putting on 'voluntary export restraints' on auto imports from Japan, adopting steel tariffs more generally, and successfully demanding declines in the value of the dollar against major trading partners' currencies. In the six years following the VERA agreement, the mean income of the top quintile of households rose by 48%. For comparison, in the six years following US establishing Permanent Normal Trade Relations with China and its WTO accession in 1999, the mean income of the top quintile rose by 18%. Similarly other high-income democracies saw a decline in labor share to GDP comparable to the US during the 1980s, but in the 2000s their labor shares were largely flat while some even increased (see Figure 2; the US labor share was flat to down). Those similar trends across the 1980s were primarily the result of union-busting, sectoral deregulation, cuts to social and educational spending, and regressive changes to the tax code, which were common across most OECD economies at the time, and dominated the U.S. domestic agenda. While inequality rose and labor share dropped in the 1980s, on the trade front it was a time of higher protectionism against open trade.

It is true that most economies globalized significantly during the 1990s. Global trade has been growing for decades as countries have opened up their economies. As a share of *global* GDP, total imports plus total exports rose from 39 percent in 1990 to 61 percent in 2008. Trade then fell sharply as a result of the global financial crisis, but it has since crept upward afterward, nearing its pre-meltdown level in 2019 pre-COVID. The United States has bucked this trend, however. (See Figure 3) Our trade-to-GDP ratio rose much more slowly than that of other countries—growing from 20 percent in 1990 to 30 percent in 2008—all the while staying well below the global average. It fell at the same rate as the world at large's during the financial crisis, but unlike the rest of the world, it has yet to recover. Of course, as a country that has a large, advanced, and diverse economy and is separated by oceans from much of the rest of the world, it is only natural that the United States has a lower trade share than the average economy. There is no fundamental reason, however, for it not to be opening up at roughly the same rate as the rest of the world—especially considering that the entry of China, India, eastern Europe, and parts of Latin America into global markets ran its course long ago.

Concern about the ill effects of trade, even if vastly exaggerated, however has been highly successful in preventing the U.S. from signing new free-trade agreements. Since 2000, the U.S. government has brought into force deals with a number of extremely small economies, primarily for foreign policy, rather than economic, reasons—with Bahrain and Jordan in the Middle East and with Colombia, Panama, Peru and a group of Central American states in Latin America. Cumulatively, these have had essentially no impact on the openness of the U.S. economy. In the last 20 years, only the 2012 U.S.-Korea Free Trade Agreement, a deal with South Korea, has required any measurable liberalization, and even it included greater protections for U.S. manufacturers of light trucks. A U.S.-Japanese agreement concluded in 2019 was so limited that it required no congressional approval. The Trans-Pacific Partnership (TPP) would have significantly opened the United States up, but it was rejected by Trump on the third day of his administration, to the cheers of many Democrats. The U.S.-Mexico-Canada Agreement put up more protections for U.S. auto production than its predecessor, the North American Free Trade Agreement. While I strongly support the addition of high environmental and labor standards to the USMCA, in terms of openness to competition or fair trade the rest of USMCA is a move backwards.

The rest of the world has been moving in the opposite direction. The EU has added 13 new member states since 2000, thereby achieving the deepest economic integration anywhere, including the largely free movement of labor. It has also matched the United States in concluding comparable trade deals with Japan and South Korea and has struck additional agreements with Canada, Singapore, and Vietnam. Japan has not only joined the TPP's successor but also opened up its economy to China and South Korea by joining the Regional Comprehensive Economic Partnership. Australia, New Zealand, and Singapore have also signed on to both deals. The only high-income democracy to retreat from trade more than the United States is the United Kingdom, whose exit from the EU has gone about as badly for workers and low-income households as most economists predicted. But even the U.K. has now sought to join the CPTPP.

The U.S. economy has retreated from global economic integration in another way, too: by discouraging foreign companies from building new plants, offices, research facilities, or outlets in the United States. "Greenfield investment," as this type of activity is known, is much more desirable than corporate takeovers, mergers, or the cross-border sale of businesses—forms of foreign investment that may entail only a change of ownership, without creating any new jobs. In fact, foreign greenfield investment is generally associated with increases in higher-paying jobs and R & D spending. But since 2000, the inflow of greenfield investment to the United States has been trending down sharply, from $13 billion annually in 2000 to $4 billion annually in 2019. (See Figure 5) Blame goes to a succession of nationalist policies adopted by Congress during the last four administrations that have increased the threat of arbitrary restrictions on technology transfers and foreign ownership.

Immigration tells the same story of U.S. disengagement from the global economy. And similarly to trade, but even more sadly in human terms, the claims of economic and social harm said to justify raising barriers to immigration are unfounded, and the reality U.S. exposure is the opposite of what is widely believed. Net immigration to the United States has been declining since the 1990s. (See Figure 6) The trend started well before Trump took office. In that decade, the U.S. immigrant population (including undocumented people) was growing at 4.6 percent annually; in the next decade, it grew at 2.5 percent annually; and in the decade after that, it grew at 1.3 percent annually. Some of the decline is owing to weaker "push" factors, such as the diminished incentive for Mexicans to head north as wages in Mexico have increased, and some of it is the result of weaker "pull" factors, such as the growth of anti-immigrant sentiment in the United States. Whatever the reason, the fact is that the U.S. labor market has been increasingly insulated from the arrival of foreign workers. Just as on trade, other high-income democracies have been moving in the opposite direction, increasing their immigration rates while doing better on economic disparities than the U.S.. (See Figure 7) Even economies widely considered to be closed to immigration, like Australia and Japan, have had immigration increasing while it decreases in the U.S.

The basic data tell a clear evidence-based story about the United States over the past two decades: even as trade barriers have accumulated and immigration has more than halved, inequality and nativism have risen. Whatever the perception, and whatever the complaints, for twenty years Washington has given voters hostile to globalization much of what they wanted on the international front, and they are still dying deaths of despair in increasing numbers and engaging in political violence. Meanwhile, the lot of the United States' lower-wage service workers—predominantly female and disproportionately nonwhite—has worsened despite the withdrawal from globalization. The misguided focus on globalization diverts attention from these real problems.

WE NEED TO GET OVER THE MANUFACTURING JOBS OBSESSION FOR EVERYONE'S SAKE

Nostalgia is not a good basis for making a more equitable economy for workers. That is just as true for economic policy as it is for social policy; nostalgia privileges a status quo that locks in incumbents' advantages and ignores the difficulties that many people are already suffering. Inequities have only gotten worse as Congressional attention has persistently focused on the majority white and male workforce in the shrinking manufacture of goods. A sentimental obsession with "good jobs" in manufacturing is doomed to fail, while failing to address long-standing injustices.

For more than 50 years, ever since German and Japanese exports began seriously competing with U.S. goods, pundits and politicians have bemoaned the decline of American manufacturing. If only the government supported American producers, the argument went, they could stave off competition from the Germans and the Japanese, then the Mexicans and the South Koreans, and now the Chinese. The notion that elites betrayed the common man has echoes in the stabbed-in-the-back myths that recur in nationalist politics. It is just as false and poisonous.

Germany and Japan have indeed run manufacturing trade and overall trade surpluses for decades, and yet over the past 40 years, their manufacturing workforces have also shrunk as a share of their total workforces, and at about the same rate as the United States' has. (See Figure 8) In fact, manufacturing employment has been falling sharply in all high-income economies, irrespective of their trade balances. It is true that the share of manufacturing in total employment remains higher in some of these countries than it is in the United States, but even in the top manufacturing countries, the current share is below 19 percent of the workforce. (The last time the share in the United States stood at 19 percent was in 1982, long before NAFTA or China PNTR; today, it up from a low of ten percent.) In China, the manufacturing employment share peaked at 30 percent in 2012 and has been falling ever since—even though the country boasts the world's most extensive subsidies and government protections for manufacturing along with undeniable trade barriers.

Only about 16 percent of non-college-educated Americans work in manufacturing. What about the remainder, who are not blessed with those "good" manufacturing jobs? This is not an idle question. Even after assuming a massive change in government priorities, it is completely unrealistic to think that a country can raise the share of employment in manufacturing by more than a small fraction; no country has ever done so after becoming a developed economy. Sustainable growth in desired employment is not a matter of wishing. Furthermore, the simultaneous steep long-term decline in manufacturing jobs across the world, while manufacturing output in terms of value-added has risen, tell us that this is the result of technological progress, not of trade openness or even labor market protections.

Nor is it costless to pursue more manufacturing jobs. Like any industry, manufacturing responds to incentives, and trade protectionism imposes substantial costs on manufacturers. These costs are passed on to those U.S. firms that pay more for tariffed inputs. As a result, these companies have a harder time competing against other producers or find their goods subject to retaliatory foreign tariffs, and so jobs are destroyed. The costs to American consumers from protectionism are substantial, as well. They particularly hit poorer households, which spend a larger portion of their income on affected goods such as cars, clothing, food, and housewares. As three economists who worked on the Obama Administration Council of Economic Advisors —Jason Furman, Katheryn Russ, and Jay Shambaugh—have put it, "tariffs function as a regressive tax that weighs most heavily on women and single parents."

Protectionism distorts incentives in another way, too. Manufacturing companies that feel politically protected because they are "too big to fail" engage in moral hazard every bit as much as the banks did before the financial crisis.   Whether that takes the form of Volkswagen and other German automakers cheating on emission tests and poisoning the air or Boeing denying the design flaws in the 737 MAX airplane and causing crashes, or the U.S. auto industry of the 1960s being "unsafe at any speed," national champions behave irresponsibly at best.. As the U.S. chemicals, steel, and mining industries proved in the 1970s, and as Chinese heavy industry is proving today, corporate political privilege caused by a closed economy destroys productivity, at a minimum, and usually the environment, too.

Moreover, the fetishization of manufacturing jobs is hardly a neutral policy. The image of men doing dangerous things to produce heavy stuff seems to resonate with nostalgic voters in a way that women providing human services does not. We can hope the bravery of frontline healthcare, transport, and sanitation workers of all colors and genders during the current pandemic changes this bias. But an obsession with manufacturing is a fiercely gendered view: only 30 percent of manufacturing workers in the United States are women, and the overwhelming majority of manufacturing workers have always been men (even during the wartime days of Rosie the Riveter). When manufacturing contracted, the jobs hit first and hardest were the already less well-paid jobs in the garment industry, a higher proportion of which were held by women.

Manufacturing also favors white men over men of color. Black and Latino workers make up well over a third of the non-college-educated workforce, and so one would expect that they would have a higher share than the less than 25 percent of manufacturing jobs they do. Black and Latino workers are also paid less, on average, than white workers for the same jobs in those industries. As the work of William Spriggs and co-authors has shown, when manufacturing contracts, it is the workers of color who lose jobs disproportionately (similar to women in textiles hit first). Whatever the causes of these disparities, to worry excessively about manufacturing jobs lost to trade rather than disruptive change in general for all American workers is to favor the incumbent workers in industries which where the workers were already better off and more likely to be from historically advantaged groups.

There is a related misleading cognitive distortion in most public discussion of the so called "China Shock" to American manufacturing. After much analytical debate, economists have agreed on an upper-bound estimate of the number of U.S. manufacturing jobs that were lost as a result of Chinese competition after 1999: two million, at most, out of a workforce of 150 million. (That ignores any jobs created by commerce with China, since the focus here is on worker disparities through displacement) In other words, from 2000 to 2015, the China shock was responsible for displacing roughly 130,000 workers a year. That amounts to a sliver of the average churn in the U.S. labor market, where about 60 million job separations typically take place each year. Although approximately a third of those total job separations are voluntary in an average year, and others are due to individual workers' circumstances, at least 20 million a year are due to business closures, restructurings, industries contracting, or employers moving locations. In other words, for each manufacturing job lost to Chinese competition, there were roughly 150 American workers' jobs lost to similar feeling to them shocks in other industries. But these displaced workers got less than a hundredth of the public mourning.

An American who loses his job to Chinese competition is no more or less deserving of support than one who loses his job to automation or the relocation of a plant to another state. Many jobs are unsteady. Think of the flight of jobs from inner cities or the displacement of secretarial and office workers due to technology—losses that, for the workers affected, are no different in terms of local impact and finality than the manufacturing job losses resulting from foreign competition. The disproportionate outcry about the effect of Chinese trade ignores the experiences of the many more lower-wage workers who experience ongoing churn, and it forgets the way that previous generations of workers were able to adapt when they lost their jobs to various forms of competition (including trade).

Ultimately, the worst thing about holding up the ideal of "good jobs"—whether in factories, as coders, or in the trades—is that it distracts from the reality facing most lower-wage American workers. Many people, not just undocumented immigrants, effectively work in the informal sector, holding unstable jobs that offer limited protections and few guaranteed hours, and limited prospects for advancement. It is unrealistic to make "good jobs" a central aspiration when they simply cannot be delivered for a significant minority of the population by blocking globalization. It is wrong to focus on those who already have advantages rather than pursue economic policies that would also improve the lot of service-sector and part-time workers first.

PROTECT PEOPLE NOT PLACES

Overlapping with concerns about trade dislocation are concerns for the communities hit hardest by it. The image of Rust Belt towns whose main manufacturing plant moved its work offshore (or to a non-union state), devastating the local economy that has been built around that employer, is based in reality. The suffering of less educated workers in such communities is real, profound, and mounting. The natural instinct of any compassionate human being, let alone any responsive politician, is to try to fix this situation. Preventing job loss in the first place seems to be the way to do so, and when that cannot be done, what comes next are efforts to revive the hard-hit communities. Accordingly, numerous policy proposals in recent years has called for plans to recognize the importance of local communities and build them back up. Elected officials, for their part, often want follow up with geographically targeted and/or 'trade-related' government assistance.

The problem is that there are precious few examples of a government successfully reviving a community suffering from industrial decline. Geography is not destiny, but it is the embodiment of economic history in many ways, and accumulated history is difficult to overcome. Growing up near Boston in the 1970s, I remember my elementary school teaching me about the jobs lost in the textile mills of Lawrence and Lowell and the efforts to bring back those towns. To this day, the towns remain shells of their former selves—and that is in Massachusetts, a state with a generous mindset and senior representatives in Congress who can deliver federal funds. The same remains true for cities in the Midwest. True, Pittsburgh has transitioned back to vitality, and Detroit is past the worst of its horrible economic and social lows, but the former had to experience a nearly complete turnover of industries and to some degree a turnover of population, and the latter is still a long way from full employment and prosperity. And those two cities are vastly outnumbered by the cities and towns that have not come back at all.

The international experience is even more cautionary. In Germany and Italy, fiscal transfers to depressed regions—the former East Germany, the Italian South—went on for decades at a scale unseen in U.S. history, buttressed by EU funding. Yet cities and towns in the deindustrialized regions of Germany and Italy have still not caught up with their more prosperous counterparts in terms of employment or per capita income. Japan, which has a political system that is built on the dominant party funneling pork-barrel projects to exurban districts, has also failed to revive its depressed regions. In fact, more and more Japanese have moved from smaller cities and the countryside to Tokyo, Osaka, and other megalopolises. In the United Kingdom, the miseries of northern England, which lost coal mines, steel mills, and shipyards, have been the focus of successive government efforts to "level up" that region to match the wealthy Southeast and London. Instead—just as in Germany, Italy, and Japan—the younger and more skilled have left for places of greater opportunity.

The picture is largely the same even in China. Its zones of prosperity along its eastern and southern coasts are a magnet for workers from the rest of the country. The lower-income northern and western interior has failed to catch up in income or employment. And this is in a country that has protected heavy industry on an unprecedented scale for years on end, has run substantial manufacturing trade surpluses, and has a government willing to restrict internal migration and locate industries by edict.

No one should be abandoned simply because of where they live, and no community deserves to decline. But governments should not lie to their citizens by doubling-down on proven to be failed policies, either. There simply is no reliable method of saving local communities when they lose their dominant employer or industry, even with a massive amount of resources devoted to the effort.

Like fixating on manufacturing jobs, holding out the hope that workers can often find similar kind of work in the same rough location when the economy changes also requires willfully ignoring the reality for most lower-wage workers in the United States. The creation of the Black middle class in the United States over the course of the twentieth century was in large part the product of massive migration out of the South, and then a later migration back, as opportunities shift. Hispanic-Americans are no strangers to moving across the country or further in pursuit of work and opportunity. The suffering of individuals in the United States' rural areas and Rust Belt today should not be ignored, nor should one make light of the social ties that bind people to their communities. But it is time to honestly acknowledge the reality that movement is sometimes a necessity and often benefits lower-wage workers.

The dangers of the current attitude go further. Economists have found that in many parts of the United States, there is just one dominant employment option, or only a few. Just as having a monopoly over production gives companies the power to push up prices at households' expense, having a monopsony over local labor gives companies the power to push down wages—and they exercise it. Thus, government policies to prop up a local employer may enable that employer to exploit the workforce, and as studies have repeatedly shown, minority and female workers will be taken advantage of the most. The broader community can be exploited, too: companies that know their departure would severely harm a town can also extract generous protections and subsidies from local governments, at the cost of more socially beneficial spending, and in some cases a de facto exemption from enforcement environmental and safety regulations.

Even if place-based aid policies ever worked, now is not the time to ramp them up, when there are accumulating forces making them more likely to fail. Climate change will radically alter which parts of the country are viable for various industries and occupations: agricultural zones will shift, and carbon-intensive industries will shed jobs. Pandemics will likely be persistent and more frequent, perhaps changing patterns of schooling, transportation, and health care. The impact of technology is less certain. The surge in remote work, jump-started by the COVID-19 pandemic, may make it more possible for people in depressed cities to find employment. (The widespread acceptance of virtual meetings, meanwhile, has made it easier to sustain social ties at a distance, and so it may also make it easier for people to move for work.) Still, the rise of remote work is probably irrelevant for lower-wage and less educated workers: whether in services or manufacturing, their occupations for the most part require them to be in person to earn their pay.

NEEDED POLICIES TO REDUCE DISPARITIES FOR WORKERS FACING CHANGE

The Federal Government can help people and their families move to where there are jobs. It can subsidize faster transportation so that people can commute over longer distances feasibly. It can help people prepare for jobs in growing industries and match them with jobs, too. It can change zoning laws to encourage more affordable housing near where there is job growth. It can provide a safety net for those who are too old, too unwell, or just too anchored to move. It can copy the active labor-market policies of most European countries, putting in place government programs that enhance incentives to seek employment, improve job readiness, and help people find work.

Where U.S. economic policy has been too neoliberal is not on trade but on domestic issues. That is where we have withdrawn necessary regulations, starved enforcement of regulations which do exist, and cut worthwhile public spending and investment. The U.S. government has worried too much that a stronger safety net might disincentivize people to find work, relied too much on finely tuned incentives and nudges as the mainstay of policies, and, as a result, done far too little to directly pay for individuals' health care, education and training, transportation, and childcare. This was true in the Clinton and Obama Administrations as well as in the Bush and Trump Administrations. It has failed to seriously enforce laws against tax evasion, environmental dumping, the underpayment of wages, and unsafe workplaces. The American Rescue Plan, passed by Congress in March, includes some measures in the right spirit, notably the expansion of the child tax credit, and I support most of the public investments proposed by the Biden Administration and favorably considered by the House.

What is truly needed, though, are universal benefits that protect individuals and families, rather than jobs and places. Instead of reinforcing the partitioning of the country into districts that define people's identities, policies should help people see their security as independent of their current location. The United States would be better off economically and politically. To that end, the Affordable Care Act should be expanded so that health insurance is truly portable. Pension programs should be consolidated across employers to reduce the cost of changing jobs. Gig, temporary, and part-time workers should receive most of the same legal protections that full-time employees do, and they should be allowed to accumulate seniority, savings, and benefits just as many full-time workers do. These policies would level the playing field for various types of American workers and make it easier for them to move between jobs. They would also force employers to compete for workers on the basis of better wages by removing their ability to entrap employees in a given spot or through their irregular status. We are seeing some of this at work at present, but these need to be more than temporary empowerments of workers due to recovery from COVID or associated programs – we need legislation to truly address disparities.

There is little evidence to suggest that millions of jobs would be lost if the federal government simply raised labor standards to the level of some U.S. states and almost all competing high-income economies. Australia, Canada, and most western European countries have stricter labor regulations and more generous health insurance and pension programs—and have prime-age labor-force participation rates that are comparable to or higher than that of the United States. Female labor force participation has declined in the U.S. while rising significantly in Japan and much of Europe (See Figure 9) – those improvements came by investing in child and elder care, and enforcing equal labor laws, all (again) while opening up their economies more to trade, investment, and immigration. Moreover, they generally have far better wages for lower-skilled workers as compared to the mean and the top income levels than we do.

Another key element is the enforcement of existing regulations. The agencies charged with enforcing health, safety, labor, and environmental regulations have been chronically underfunded, and the fines they hand out for violations have been set too low. As a result, polluters and wage cheats treat them as just a cost of doing business. As the labor economist Anna Stansbury has argued, the deficient enforcement of labor regulations has not only significantly reduced low-wage workers' income and worsened their treatment; it would also interfere with the implementation of a minimum-wage hike since employers would have greater incentives to cheat.

While expanding these programs and their enforcement, the U.S. government should put an end to Trade Adjustment Assistance and other programs designed to help only those workers who have lost their jobs specifically to trade. These programs have failed on multiple fronts: there is weak evidence that they have helped a few workers find new jobs faster, but not in ways that are not more generally applicable or depend on job loss being trade related. Clearly have not blunted economic anxiety or deaths of despair, they have not succeeded in revitalizing declining industrial towns, and they have not created any lasting political coalitions in Congress for workers or reform. Trade Adjustment Assistance, whatever it gets renamed, is a uniquely American program, reflecting the distorted perceptions I have mentioned.

Most European countries spend 0.5 to 1.0 percent of GDP annually on helping unemployed people find work, that is all workers irrespective of why they lose their jobs; the United States spends a tenth of that amount. This is exactly the wrong approach: the U.S. government is stigmatizing trade-related career changes, to no real benefit, while shortchanging all American workers by depriving them of proven programs of retraining, job matching, and support.

Can the United States afford the European approach of active universal labor market policies? Yes. U.S. federal tax rates on high earners, corporations, and inheritances are at or near all-time lows—substantially below the rates in almost all other high-income countries. Other countries have managed to enjoy sustained growth in per capita incomes with much higher tax rates, as did the United States in the past century. There is a point at which higher tax rates choke off investment and employment, but the United States is nowhere near it today. Raising taxes on those U.S. taxpayers who have seen their incomes and wealth rise substantially over the last 20 years would not only be just and politically stabilizing; it could also pay for an expansion of federal labor and social-benefit programs by three or four percent of GDP. During economic upturns, additional revenues could be gained through the payroll tax, giving workers the sense that, as with Social Security, they are paying into a program that they deserve to receive payment from in turn.

OUR DEGLOBALIZATION HAS MADE DISPARITIES WORSE AND REFORM MORE DIFFICULT

There is a popular notion that the United States has been sacrificing justice in the name of economic efficiency, and so it is time to correct the imbalance by stepping back from globalization. This is a largely false narrative. The United States has been withdrawing from the world economy for more than 20 years, whether measured by trade, economic deals, investment, or immigration. For most of the last two decades, U.S. economic dynamism has been falling, and inequality in the country has risen more than it has in economies that were opening up at the same time. Our workers are less mobile than they were before 2000. Fewer businesses have been started. Corporate power has grown more concentrated. Innovation has slowed. Although many factors have contributed to this decline, it has likely been reinforced by the United States' retreat from global economic exposure and the nationalist political toxins encouraged by such blaming the world for our problems. Since the takeover of the U.S. Capitol by a mob in January, the United States has had to recognize that after years of lecturing others on the importance of peaceful democratic elections, it is not exempt from political failures. Similarly, after decades of lecturing others on the stagnation and corruption of closed economies, the U.S. now suffers from the same problems, to the cost of American workers. That cost is not just higher prices and fewer jobs, but reinforced vulnerabilities of lower-wage workers to corporate concentration and incumbent historically advantaged groups.

Indeed, many countries have undertaken international opening to spur economic changes in stagnant and socially divided societies: consider the Meiji Restoration in Japan, Kemal Ataturk's reforms in Turkey, Deng Xiaoping's marketization in China, and the accession of southern and eastern European countries to the European Union. These were deliberate campaigns of reform, not shock therapy, in which the markets simply were allowed to let rip. The countries had to be honest with themselves about their shortfalls in international comparison and admit that their previous arrangements were corrupt and prejudicial. They had to accept that economic change was empowering and liberating for the majority of their citizens, that the central government had to play a stronger role in social support, and that workers had to be allowed, if not encouraged, to migrate to cities or wherever where the opportunities were.

Although the United States is not, of course, a pre-market economy under an authoritarian government, it does need to recognize how far it has fallen short of its ideals and potential in the economic sphere, as well as how much better its peers and rivals around the world have done on many counts. Just as the statement "this is not who we are" in the face of racist violence lets Americans off the hook too easily, talk about the United States as the most open, vibrant, competitive, or opportunity-rich economy in the world is a form of self-delusion. Blaming our problems on the actions of foreigners – foreign workers, companies, governments – turns out on the facts to be just as much a fear-based nationalist trope as other disinformation besetting our democracy today.

The United States needs to be willing to conform to international standards, to learn lessons from other countries, and to accept that competition should be a source of beneficial change. Since World War II, the United States has approached international economic integration as something it encouraged others to do. Trade deals were framed as being about foreign countries opening their markets and reforming their economies through competition. For a long time, this narrative was largely true. It had the unfortunate effect domestically, however, of characterizing the United States as open and the rest of the world as protectionist. The competition that U.S. firms faced from abroad was seen as the result of unfair trade. Those perceptions have now outlasted the reality. It is the United States that needs foreign pressure and inspiration after a sustained bipartisan policy of deglobalization.

The United States should have a constructive international economic policy, rather than a defensive one that blames global forces for its ills. Such a policy would start with the recognition that the United States has not been subjected to reckless economic opening by Washington elites. Instead, the rest of the world is continuing to further integrate economically while the U.S. withdraws. Globalization goes on no matter what, and trade in particular is more resilient to U.S. withdrawal than many would like to believe. Where there are real comparative advantages in production, yielding large cost or quality differentials, purchasers will find a way to get the goods and services they want. No single economy's tariff regime can ever control a significant part of world trade, even when leveraging a large internal market; the rest of the world is always larger, and the opportunities missed are always found by someone else. As technology makes international commerce ever more transparent and mobile the U.S. economy's unilateral efforts to defensively withdraw from the world will become only more futile.

Instead, the United States should actively seek to encourage the type of change in its own economy that it once sought to make other countries undertake through trade deals. Washington should agree to international standards defined by limited but strong and well-enforced rules, ones that focus on observable behaviors of companies and governments, not on numerical targets (like trade deficits) or institutional aspirations (like reforming the WTO). Four areas of potential international agreement are particularly ripe for the United States to pursue.

The first is international corporate taxation. I applaud Treasury Secretary Yellen's leadership on this issue, and ask the members of this Committee to support the passage of changes to the U.S. tax code consistent with the international agreement negotiated. Corporations often evade taxes by shifting their profits to low-tax jurisdictions, a practice that erodes government capacity and the political legitimacy of market economies. The digital economy has made these distortions even greater, although large technology companies are far from the only firms to exploit the loopholes. Collective international action should give the United States an opportunity not only to raise its tax policies up to the standards of other advanced economies but also to prevent its own companies from evading taxes. This will directly help the income disparity in the U.S. as well as just be more fair.

Another international initiative which could address the well-being of American households involves carbon pricing. The United States needs a carbon tax, and the world needs it to have one, too. The U.S. economy should accelerate its pace of decarbonization. Although technological advances and private investment decisions are generating meaningful progress, a high and rising carbon price offers the best prospects for slowing climate change while there's still time. The Biden Administration's changes to energy generation and transport regulations, and subsidies for green investment also are helpful. But in not having a national carbon tax, the United States lags behind the EU member states and a few other countries. If it does not catch up, those countries would be justified in instituting a carbon border adjustment—a tax on imports to offset the underpricing of carbon inputs in places such as the United States. Meanwhile, American workers need a system whereby they will not be undercut by carbon dumping and dirty production abroad. This requires international cooperation including cross-border standards and investment.

Third, Washington should seek international agreement on labor standards in existing trade agreements and independent of them. The updating of the North American Free Trade Agreement as the U.S.-Mexico-Canada Agreement to protect worker representation and unions was positive in two senses: first, it helped secure rights for Mexican workers, and second, it demonstrated that the U.S. labor movement can get their legitimate concerns about labor rights addressed while keeping markets relatively open. Washington should now turn the tables on itself and pursue trade agreements with countries that have *higher* labor standards than it does. This would reinforce the changes in legislation and enforcement that it should also make. This move could be combined with an agreement among democracies to ban the import of products produced by coerced or prison labor, as in China's Xinjiang region.

Finally, U.S. officials should practice what I have called "principled plurilateralism." In this strategy, groups of countries come together to strike agreements on high standards for international commerce, with membership in the groups determined solely by compliance with those standards. American politicians are unlikely to advocate that the United States join trade deals in the near future, but there is something the country can do in the meantime: encourage such an approach by major democratic allies, such as Australia, Canada, Japan, Singapore, and the United Kingdom. Even progress undertaken without U.S. membership benefits the United States by making more visible its own deficiencies and pressuring it to up its own game.

Ultimately, the United States needs to embrace economic change rather than nostalgia. The path of deglobalization has already been pursued quite strongly for two decades, through Democratic and Republican Administrations and multiple Congresses, and it has only fed economic inequality and injustice over that time. Telling voters that the "good jobs" of manufacturing are the key to restoring their prosperity and that the country must be protected from global competition is not only misleading; it is destructive in the workers it ignores and the privileged incumbents it empowers to exploit those workers. Continuing down this path will cost jobs overall, further entrench the biases against lower-wage service workers, and it will do little to prevent the mounting despair beyond make it feel justified. Similarly, even well-meaning efforts to repair rural and exurban communities by tying people to their local job markets will in fact make them more vulnerable economically, which in turn will fan despair and injustice.

Instead, the government should seek to protect people as individuals separately from their jobs or lack thereof. People's jobs should become less important both to their well-being and to their self-worth, as is already the case in most other high-income democracies. The U.S. government should promote better livings for all rather than scarce "good jobs" for a privileged few. Both the pandemic and climate change should serve as a reminder that the future will be even more about adaptability in work arrangements and stability at home. Most of all, instead of treating economic change induced by trade as inherently unfair, Washington should use international standards and competition to raise up U.S. workers and companies. Fixating on any one sector, let alone any one company in one place, only divides American society and burdens neglected workers with a disproportionate share of the costs of adjustment. Indeed, for the last 20 years, it already has.

FIGURES

Link with connections to underlying data and sources for Figure 1:
https://www.taxpolicycenter.org/statistics/household-income-quintiles

Link with connections to underlying data and sources for Figures 2-9:
https://www.piie.com/research/piie-charts/united-states-has-been-disengaging-global-economy

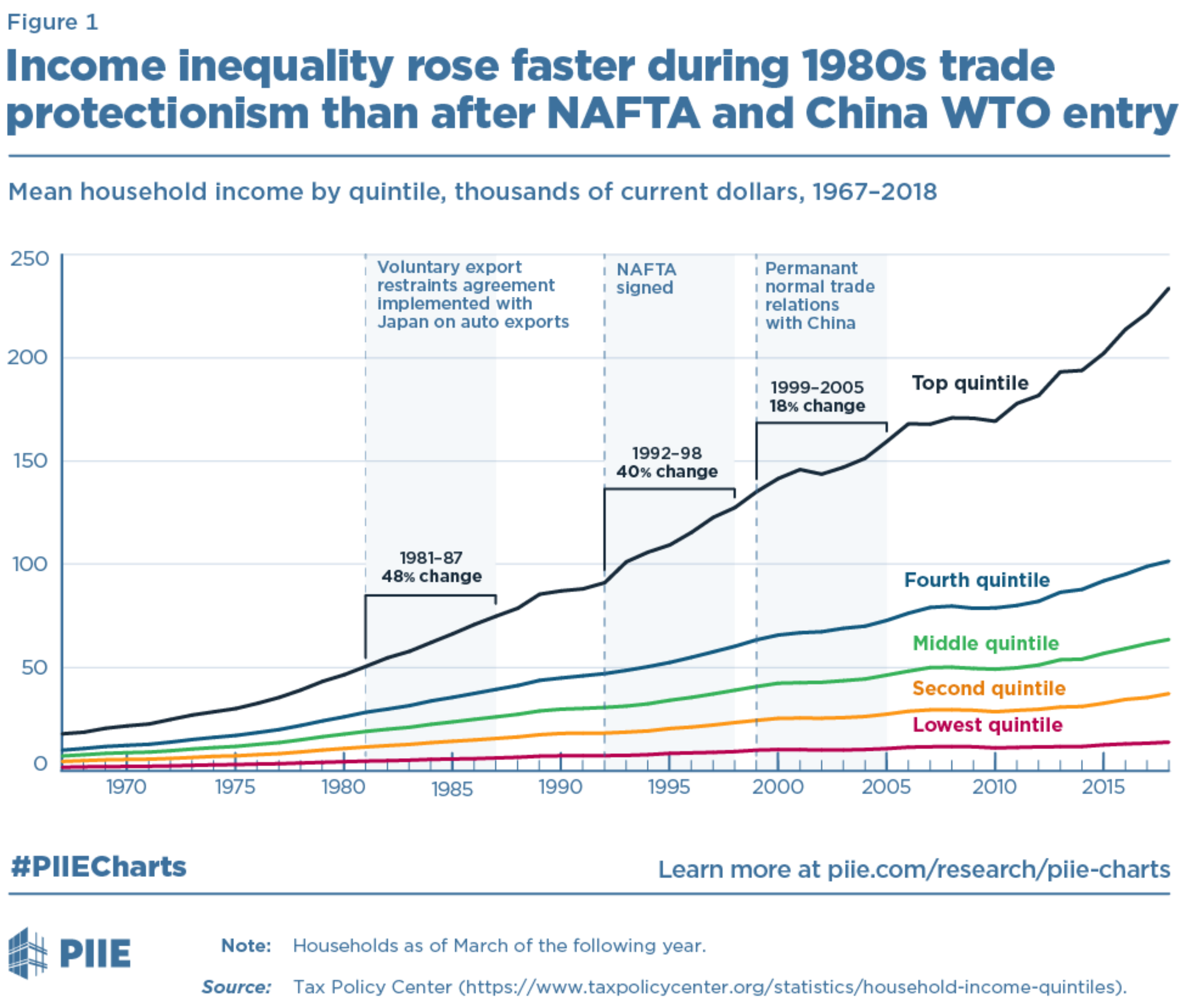
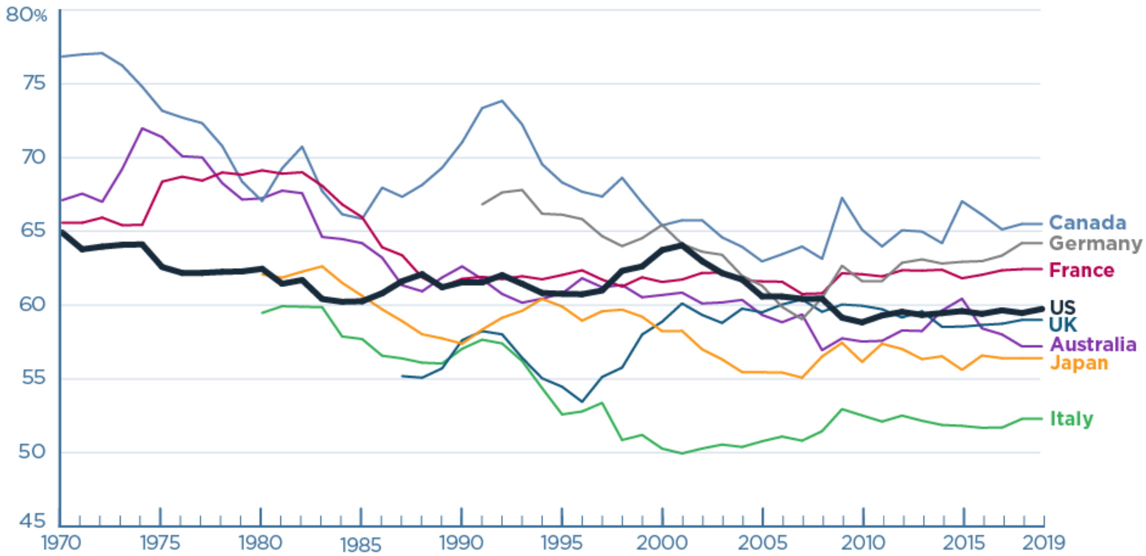


Figure 2

Labor's share of national income fell, then stabilized at lower levels, in most advanced economies

Labor compensation as percent of GDP, 1970–2019



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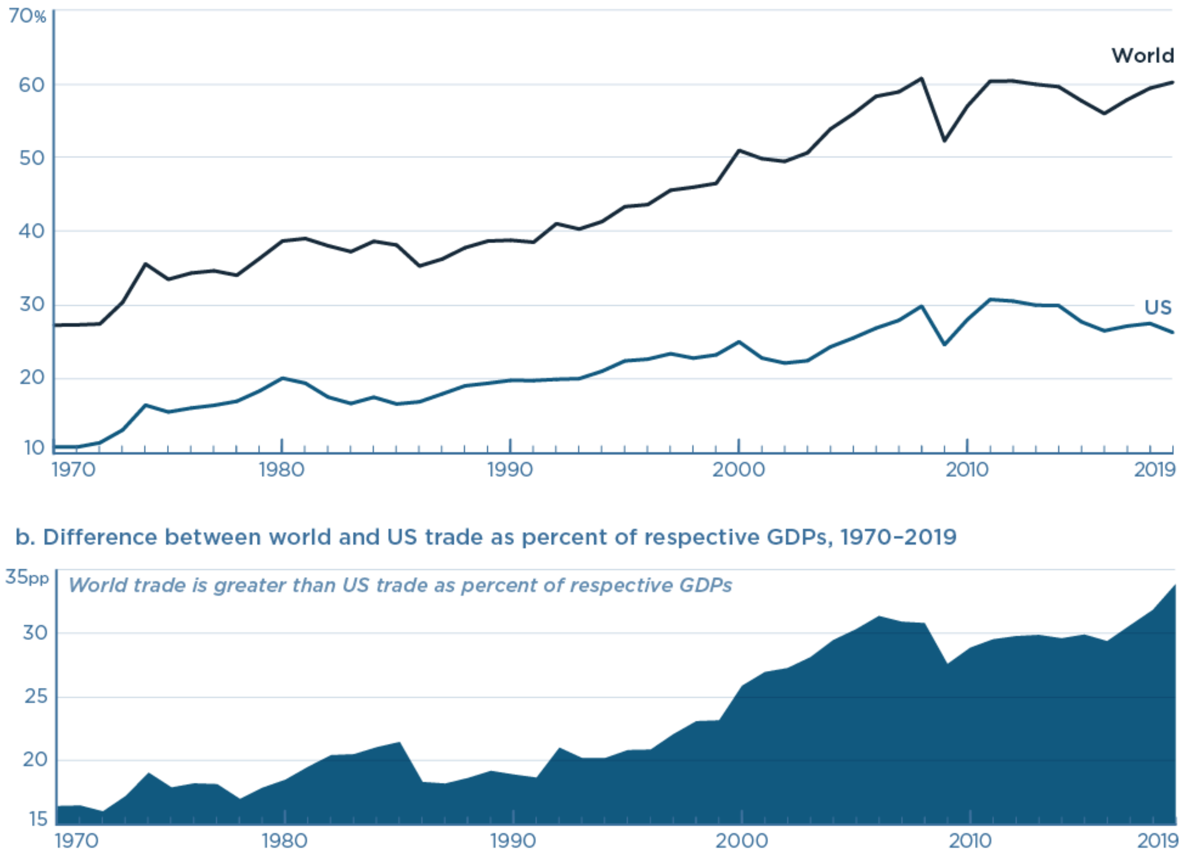
Note: Data used are at current national prices.

Source: Penn World Table version 10.0: Robert C. Feenstra, Robert Inklaar, and Marcel P. Timmer, 2015, The Next Generation of the Penn World Table, *American Economic Review* 105, no. 10, 3150-82, www.ggdc.net/pwt.

Figure 3
US trade openness has not kept up with the world

a. Trade in goods and services as percent of GDP, 1970–2019

b. Difference between world and US trade as percent of respective GDPs, 1970–2019



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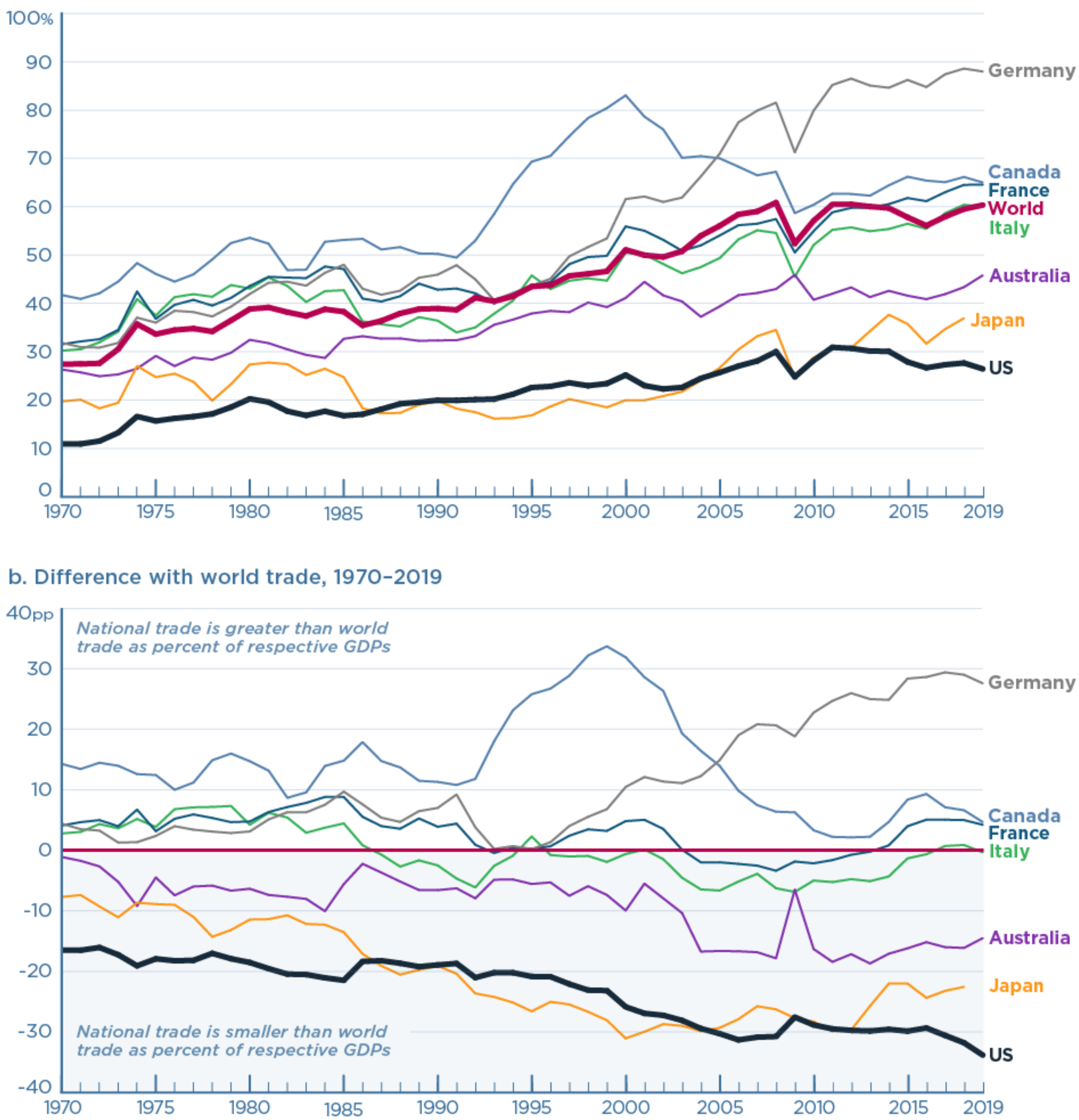
pp = percentage points

Source: World Bank, World Development Indicators database.

Figure 4

US trade openness has declined while that of other large advanced economies has increased

a. Trade in goods and services as percent of GDP, 1970–2019



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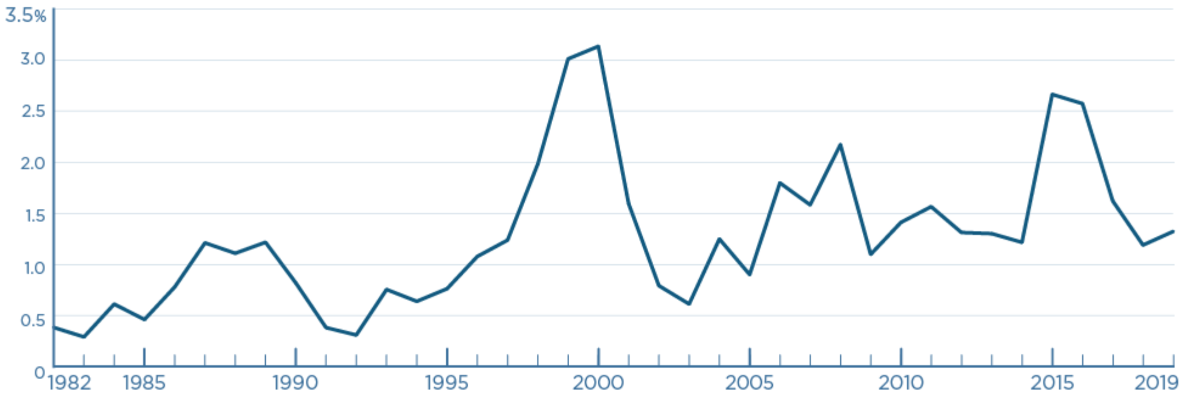
pp = percentage points

Source: World Bank, World Development Indicators database.

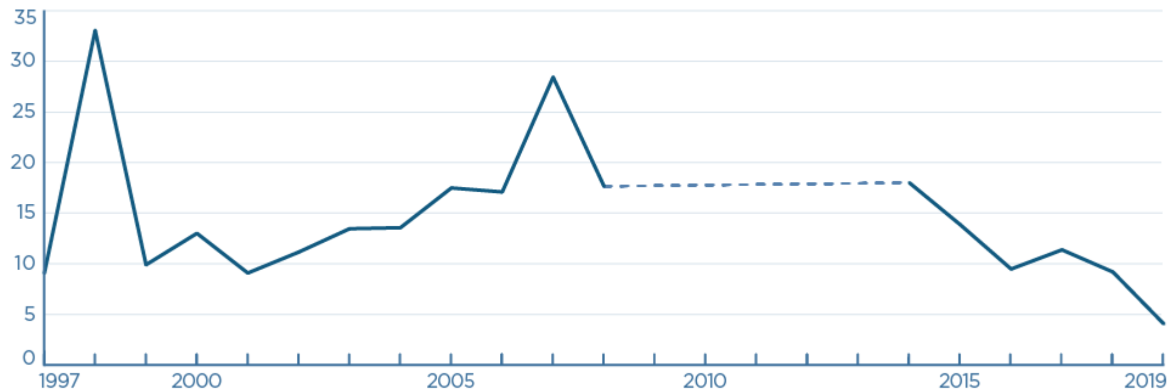
Figure 5

Foreign direct investment into the United States has stagnated since 2000

a. US foreign direct investment inflows as a share of GDP, 1982–2019



b. Realized greenfield expenditures in the United States, billions USD, 1997–2019



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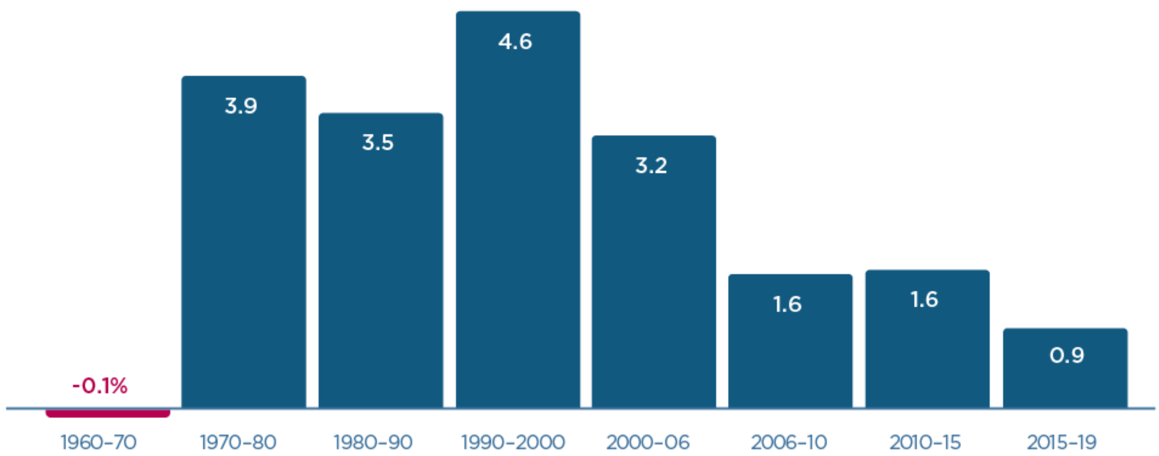
Note: Greenfield investment expenditures are foreign expenditures to either establish a new US business or to expand an existing foreign-owned US business. Greenfield expenditures for expansions included in 2014–2019 only. Dotted line denotes missing data. Survey not conducted for 2009–2013.

Source: US Bureau of Economic Analysis; World Bank, World Development Indicators database.

Figure 6

US immigrant population growth has been slowing for decades

Average annual growth in US immigrant population, percent, 1960–2019



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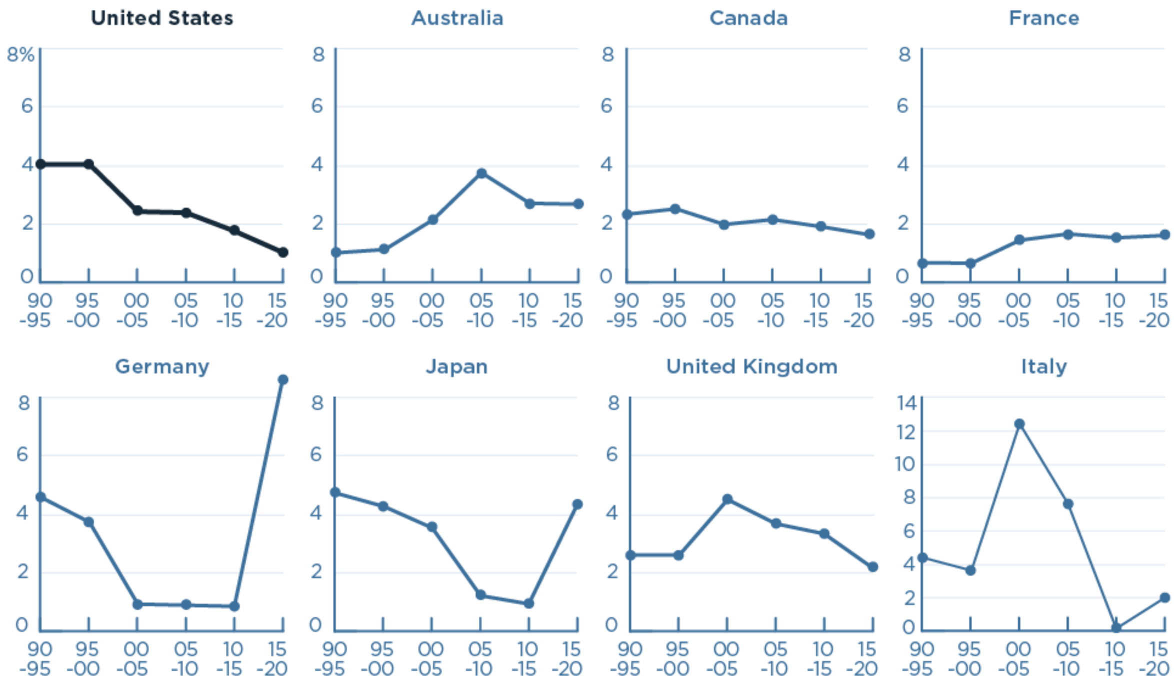
Note: Annual growth rates are geometric averages. Immigrants refer to people who are not US citizens at birth and include naturalized citizens, lawful permanent residents, temporary migrants (e.g., foreign students), humanitarian migrants (e.g., refugees and asylees), and unauthorized migrants. Data from 2006 exclude population born at sea. Average annual growth in US immigrant population was 2.5 percent in 2000–2010 and 1.3 percent in 2010–2019.

Sources: Migration Policy Institute (https://www.migrationpolicy.org/programs/data-hub/charts/immigrants-countries-birth-over-time?width=1000&height=850&iframe=true). Data for 1960 to 2000 are from Campbell Gibson and Kay Jung, "Historical Census Statistics on the Foreign-born Population of the United States: 1850 to 2000," Working Paper No. 81, February 2006, Washington, DC: US Census Bureau, Population Division.

Figure 7

The immigrant population in the US is now growing more slowly than in most other advanced economies

Annual growth rate of immigrant population, percent, 1990-2020



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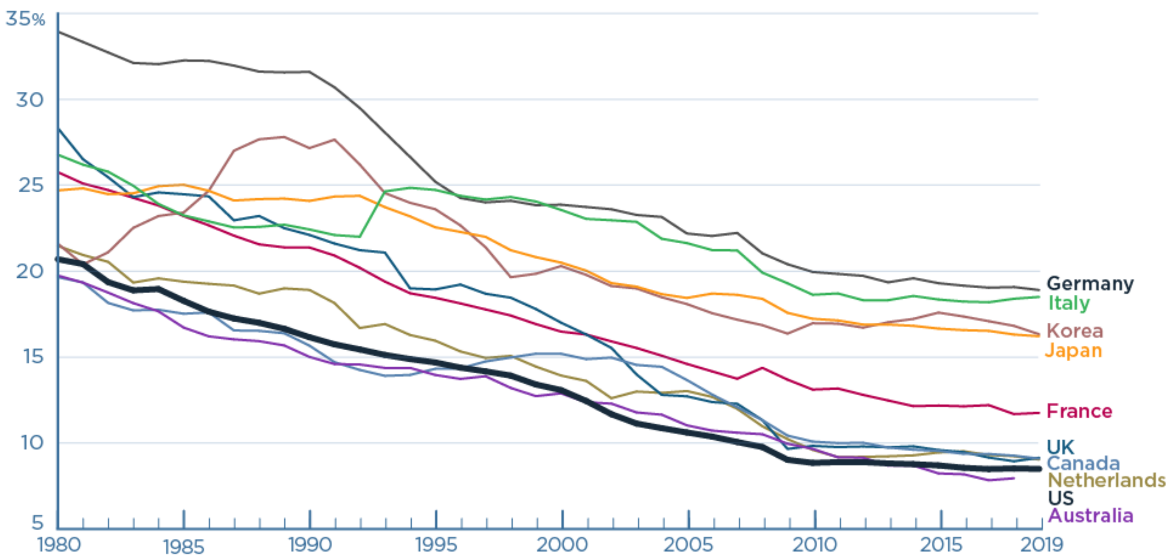
Note: Annual growth rates are estimated exponential annual rates of change of the international migrant stock.

Source: United Nations Department of Economic and Social Affairs, Population Division, International Migrant Stock 2020.

Figure 8

Manufacturing employment has been declining in all advanced economies for decades

Manufacturing employment as percent of total employment, 1980–2019



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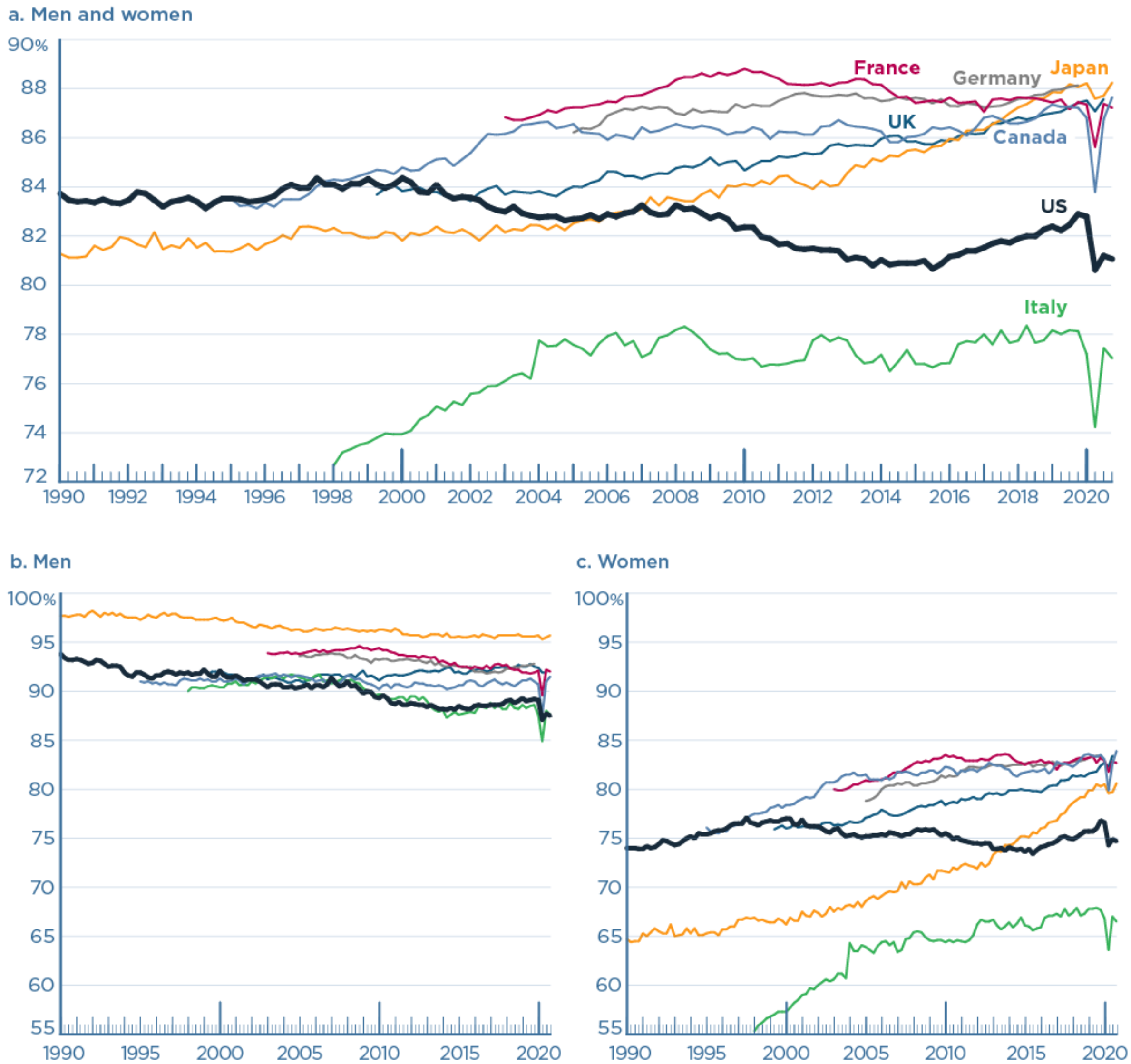
Note: US data refer to percent of total nonfarm employment. Other country data correspond to latest revision of the International Standard Industrial Classification of All Economic Activities (ISIC) for a given period.

Sources: US Bureau of Labor Statistics (for the United States); Organization for Economic Cooperation and Development.

Figure 9

The United States has become a laggard in women's labor force participation

Prime working age labor force participation rate, percent, 1990Q1–2020Q4



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Note: Data refer to men and women aged 25–54.

Source: Organization for Economic Cooperation and Development.