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Grappling with the Communitarian-Cosmopolitan Tradeoff

I do not share in the apprehension held by many as to the danger of governments becoming weakened and destroyed by reason of their extension of territory. Commerce, education, and rapid transit of thought and matter by telegraph and steam have changed all this. Rather do I believe that our Great Maker is preparing the world, in His own good time, to become one nation, speaking one language.

—Ulysses S. Grant, second inaugural address (1873)

Among the leading American economists wrestling with the issue of inequality in recent years was the Federal Reserve Chairman, Ben Bernanke. In a speech that was part of the Fed's outreach campaign in 2007, Bernanke traveled to the American heartland to lay down some caveats. Americans, he said, "strive to provide equality of economic opportunity" but not to guarantee "equality of economic outcomes." Nevertheless, he added, "we also believe that no one should be allowed to slip too far down the economic ladder, especially for reasons beyond his or her control." Significantly for a Republican appointee, Bernanke told the Greater Omaha Chamber of Commerce that the "long-term trend toward greater inequality" in the United States was troubling, but it was hard to assess exactly why the trend had taken place. Among the factors, the Fed chairman acknowledged, was "the variety of economic forces grouped under the heading of 'globalization. . .even as these forces have provided a major stimulus to economic growth and to living standards overall."[1]

One can read through many dense and learned pages of discussions by contemporary moral philosophers about the obligations to the poor without finding much favorable about the markets and capitalism that are at the heart of globalization. Indeed, communitarians and cosmopolitans seem to share one common assumption: the worldwide economic system favors the wealthy over the poor as well as the upper classes over the middle class. But the proposition that globalization, or indeed capitalism, has favored the rich and hurt the poor is not as easy to prove or disprove as the noneconomist moral philosophers on both sides assert. As noted in the earlier discussion of inequality, the preponderance of evidence indicates that the overall raising of standards of living of poor people around the world, especially in Asia, has *lowered* inequality among nations and their people on a global scale. On the other hand, globalization appears to have contributed to greater inequality within the United States, as Bernanke suggested in 2007. The problem is defining the extent to which globalization has been a factor.

In 2012 the journalist Timothy Noah surveyed a range of studies of the effects of globalization on the US economy by many economists and concluded that trade and investment with poor countries were "responsible for 12 to 13 percent of the Great Divergence, and perhaps more," using the term for the phenomenon of growing inequality of US incomes.[2]

One reason for the difficulty in quantifying the benefits or costs of more open trade is that it is problematic if not impossible to prove the counterfactual of what sort of equalities and inequalities would have resulted *without* global trade and investment. For example, one counterfactual exercise about the benefits of global trade and investment, a benchmark study by the Peterson Institute for International Economics, concluded in 2005 that incomes in the United States are $1 trillion higher as a result of the increased integration with the world economy since 1945 and that the costs associated with workers losing their jobs and suffering adversely are about $50 billion a year.[3]

Still harder is to disaggregate factors such as globalization and technology, both of which have upended the status quo, especially in the last few decades. Take, for example, manufacturing. Since World War II, employment in the US manufacturing sector has declined dramatically. Indeed, employment in that sector went from nearly 20 million Americans in the late 1970s to fewer than 12 million after the Great Recession.[4] But many factors besides the outsourcing of manufacturing jobs to overseas factories help explain the decline. For one thing, American consumers nowadays spend less of their income on manufactured goods and more on services. More important, technology has allowed American factories to become more productive—to achieve the same output with fewer workers. For example, the United States employed 2.4 million textile and apparel workers in 1973 and 1.3 million in 2005. The Bureau of Labor Statistics attributes that loss not simply to foreign competition but to new technologies, mergers undertaken to reduce costs, and other efforts to increase productivity.[5] Other studies have found that export powerhouses such as Germany and Japan have also streamlined their manufacturing sectors with the use of technologies and that their job losses are similar to those in the United States.[6]

Offshoring and Reshoring

Economic theory holds that when goods move easily around the world, the loss of low-skilled jobs in advanced countries becomes inevitable when the low-skilled labor that can fill such jobs is available in large quantities in poor countries. According to the Hecksher-Ohlin theory—put forward first by the economist Eli Filip Hecksher in 1919 and later in collaboration with Bertil Ohlin in 1933—countries produce goods based on the factors of production they enjoy in relative abundance. The evidence for the theory is mixed, but it has helped to explain why the United States specializes in exports of capital-intensive, high-technology goods and loses out on unskilled labor to developing countries exploiting their advantage in that area. In the simplest terms, the United States keeps "good jobs" with good wages and sends "bad jobs" with low wages overseas under free trade, though the gains of their prosperous coworkers—not to mention the gains of unskilled factory workers in China, Mexico, and Vietnam—are hardly any solace to the millions of Americans who lose these so-called bad jobs.

As illustrated by President Barack Obama's encounter with Apple's Steve Jobs (described in chapter 9), manufacturers invest in factories in poor countries not only because labor is cheap but also because technology allows manufacturers to rely more heavily on unskilled labor than in the past. According to the Stolper-Samuelson theory advanced in 1941 by economists Wolfgang Stolper and Paul Samuelson, a nation that manufactures goods with inexpensive labor and sells them to a rich nation with higher wages will raise the wages of its own workforce but lower the wages of the unskilled workers in the wealthier nation. This theory would then support the observed evidence that unskilled wages in the United States are stagnating at least in part because of expanding trade.

In recent years, however, there is some evidence that the trend is being reversed. Some "reshoring" has been under way as companies have discovered advantages in the United States stemming from its lower energy costs, the opportunity to avoid high shipping costs, and even competitive wages in some cases. Meanwhile, wages have gone up in formerly low-wage countries such as China. According to the *Economist*, the Boston Consulting Group surveyed US manufacturing companies in April 2012 and found that 37 percent were "planning or actively considering" shifting their production from China to the United States. Similar findings were reported by the Massachusetts Institute of Technology and the Hackett Group, a consulting company in Florida. The *Economist* article claimed, however, that the trend is still in favor of more offshoring, and many companies are trumpeting their "reshoring" simply because it is good publicity.[7]

Although relocating production may seem to be a contemporary business practice, the process is as old as the Industrial Revolution. In the 1880s, textile mills—once a dominant industry in New England and upstate New York—began moving South, and the trend accelerated after World War II. Likewise, in more recent decades the automobile industry has declined in Detroit and transplanted itself to the South. Meanwhile, factories and offices in big cities moved to the suburbs and rural office parks in distant locations in the 1950s, 1960s, and 1970s, dampening the employment prospects for largely unskilled blacks in inner cities. All these moves in the United States were accompanied by complaints about job losses, obsolete communities, and prophecies of doom. In 1964, for example, a panel of experts, including the chemist Linus Pauling, the economist Gunnar Myrdal, and Gerard Piel, publisher of

Scientific American, warned President Lyndon Johnson that massive unemployment would result from replacing millions of blue-collar and clerical jobs with machines that keep tabs on records at banks, handle executive schedules and appointments, process loan applications, and do the myriad tasks that used to be done by people who, although they did not get rich, at least functioned well with a high school education. The prophets of disaster failed to foresee, however, that these old jobs would be replaced by new jobs—managers, engineers, teachers, technicians, financiers—requiring the education and skills needed to exploit technology and improve productivity.[8] Still, the alarms continue to ring about technology as well as globalization, the theme of a more recent scholarly study of the issue, *The Second Machine Age: Work, Progress, and Prosperity in a Time of Brilliant Technologies* by Erik Brynjolfsson and Andrew McAfee.[9] The challenge in the face of that alarm, however, can be addressed more by education and training than by stopping the clock on technological change. In their book *The Race between Education and Technology*, economists Claudia Goldin and Lawrence Katz argue that the US education system, which used to be the envy of the world, has not prepared Americans for the newly competitive global economy.[10]

Trade and Globalization: Lifting All Boats or Only Yachts?

Because of the recent economic difficulties of the United States, the dominant voices on these issues today are probably those of the leading nonprofit organizations who view the rise of globalization and trade as hurting the poor in the United States and in other countries and who oppose additional agreements to lower trade and investment barriers with other countries, especially poor countries. The International Forum on Globalization represents a diverse group of unions, farmers, peasants in poor countries, women's and youth organizations, consumer advocates, environmentalists, AIDS and health activists, intellectuals, and others. It maintains that the benefits of globalization have "gone to the few at the exclusion of many." Rather than a rising tide lifting all boats, as trade proponents like to say of growth resulting from trade, the forum claims that globalization instead lifts "only yachts."[11] The forum has even suggested that the United States should grow its own food and produce its own necessities to maintain domestic livelihoods, a throwback to the days before the repeal of the Corn Laws in Britain in the 1840s, which marked the beginning of the era of freer trade in the 19th century.[12]

Many critics of globalization may be able to cite correctly the undeniable disadvantages that trade poses for lower-skilled workers, but they engage in some fallacious thinking. For example, antitrade groups routinely say that high trade deficits lead to higher unemployment in the United States, arguing that because Americans are buying more goods from overseas they should in theory be buying the same goods made domestically. But the cheap electronic gadgets, clothing, shoes, toys, and components imported by the United States are in many cases no longer made at home anyway. In addition, it is an established fact that the trade deficit increases at times of higher domestic *prosperity* because Americans are buying more goods generally, including more foreign-made goods that are not being made at home. For example, during one of the biggest periods of economic expansion, from 1992 to 2000, US imports increased nearly 240 percent. During the same period total US employment also grew at a nearly unprecedented rate, by 22 million jobs, and the unemployment rate fell from 7.5 to 4 percent, the lowest rate in more than 30 years.[13]

Balanced against job losses from globalization are what many would argue are gains to consumers from being able to buy less expensive imported goods. In 1994 Gary Clyde Hufbauer and Kimberly Ann Elliott of the Institute for International Economics (IIE) found that tariffs and quotas on imports in 1990 cost American consumers about $70 billion, or more than 1 percent of GDP, especially in higher prices for textiles and apparel.[14] (Many of these restrictions on clothing and textile imports were subsequently eased in the Uruguay Round of the General Agreement on Tariffs and Trade.) Still, the *Washington Post* pointed out in 2013 that Americans were paying more than $10 billion in tariffs on clothing in 2011, raising the cost of a pair of jeans made of Chinese cotton by 16 percent.[15] Another IIE study in 1997 by William Cline concluded that "a balanced reading of existing literature" shows that only about a tenth of the gap between skilled and unskilled wages could be explained by trade and immigration. But Cline also said that the increased supply of *skilled* labor probably caused wages to *fall* for these workers, contributing to greater wage equality.[16]

Some recent dramatic and powerful studies have illustrated the intuitive idea that trade has led to prosperity in China and problems in the United States. In 2013 David Autor, David Dorn, and Gordon Hanson, surveying 722 local US markets (or "commuting zones"), found that Chinese manufacturing imports between 1990 and 2007 cost the United States 1.4 million manufacturing jobs, reduced US wages, and increased the costs of government benefits for the unemployed, disabled, and retired. It was during this period that US imports from China increased 11.5 times.[17] A similar study by Peter Schott of the Yale School of Management and Justin Pierce of the Federal Reserve in 2012 found that the "sharp drop" in US manufacturing employment after 2001 resulted in part from a surge in imports from China and an increasing number of US companies offshoring their production to China, which had just been granted a phase-in of normal trading status with the United States.[18] A paper by Avraham Ebenstein, Ann Harrison, and Margaret McMillan published in 2015 by the National Bureau of Economic Research examined why Americans are getting poorer, as the authors put it. They found "significant effects of globalization, with offshoring to low-wage countries and imports both associated with wage declines of US workers." Globalization, they said, "has led to the reallocation of workers away from high-wage manufacturing jobs into other sectors and other occupations, with large declines in wages among workers who switch, explaining the large differences between industry and occupational analyses." Yet they also said that "other factors such as increasing computer use and substitution of capital for labor are significantly more important determinants of US employment rates across occupations."[19]

The number of American workers who lose jobs varies over time, and it is not easy to say which factors cause their "displacement." In 2014 the Labor Department reported that from January 2011 through December 2013, 4.3 million workers were involuntarily "displaced" from jobs they had held for at least three years, a number that was down from 6.1 million workers from the previous survey over a similar period of time (during the depth of the global financial crisis). By January 2014, 61 percent of these workers were reemployed, though only half at jobs with pay levels equivalent to or greater than what they had been earning. A little more than a third of those displaced lost their jobs because of plants or companies closing or relocating. Nearly one out of five of the total who lost those jobs were in manufacturing.[20] In a 2001 study, Lori Kletzer estimated that about 100,000 US workers lose their jobs each year because of the increase in imports, and in their replacement jobs they undergo pay cuts of 30 percent or more. However, about twice this number lose jobs but are able to find new employment at pay equal to or greater than what they were earning previously. Kletzer also found that from 1979 to 1999, 6.4 million workers were displaced from an import-competing industry out of 17 million workers displaced in manufacturing generally. All these workers tended to find new jobs at less pay, though not all were forced into lower-paying service jobs. Women were especially likely to be the victims in the apparel, footwear, and knitting industries.[21]

A 2013 study by Michael Elsby of the University of Edinburgh, Bart Hobjin of the Federal Reserve Bank of San Francisco, and Aysegul Sahin of the Federal Reserve Bank of New York concluded that the decline in the US labor share of the economy over the previous quarter-century was driven in large part by the rise in imports and the offshoring of labor-intensive components of the US supply chain. Their study dismissed technology and even the decline in unionization as factors in this phenomenon, which they said had been under way since before the 1980s. "Based on this suggestive evidence," they reasoned, "if globalization continues during the next decades, the labor share will continue to decline, especially in sectors that face the largest increases in foreign competition."[22]

Many of the concerns about globalization have focused on the loss of manufacturing jobs; however, more recent concerns have centered on the loss of jobs in the services sector, where the United States has long been more competitive. For example, in a study of the effects of offshoring as opposed to trade, Alan Blinder, professor of economics at Princeton and former vice chairman of the Federal Reserve, raised concerns in 2007 that more than a quarter of US jobs in services—"tens of millions" of them—were vulnerable to being shipped overseas, from medical records technicians to customer complaint call centers. Later, Blinder estimated that 22–29 percent of the US services workforce was "potentially offshorable."[23] Nobel Laureate economist Michael

Spence and Sandile Hlatshwayo, a researcher at the New York University Stern School of Business, have also warned that higher-paying jobs in all sectors are on their way to leaving the United States, potentially aggravating inequality and unequal distribution of wealth.[24]

Finally, in its 2012 report *State of Working America*, the pro–labor movement Economic Policy Institute (EPI) claimed that 6.5 percent of US employment is "highly offshorable," and another 15.1 percent is "offshorable." It was suggesting, then, that 31.6 million jobs are vulnerable to being sent overseas, a figure that it said was invoked by employers in order to suppress wage growth.[25] "Globalization might be a minority player behind the rise in inequality, but it's not a minor one," wrote Josh Bivens of the EPI. He concludes that it was a factor of between 10 and 40 percent in the past, and more so in recent years.[26]

The arc of the thinking of the economist Paul Krugman illustrates the ambivalence of many about globalization and its effects on inequality. Since his earliest years as a trade economist, Krugman has until recently championed liberalized trade. The evolution of his views is instructive. In the 1990s, Krugman said trade was not significantly responsible for the declining real wages of less educated workers. Raising trade barriers, he asserted, would "destroy the most promising aspect of today's world economy: the beginning of widespread economic development, of hopes for a decent living standard for hundreds of millions, even billions, of human beings."[27] A decade and a half later, Krugman shifted his views somewhat, saying the contributions to inequality of the influx of goods from low-wage manufacturing countries (principally China) "may well be considerably larger now than they were in the early 1990s."[28] Nonetheless, he continued to argue that exports offered poor countries "their best hope of moving up the income ladder."[29] In 2015 Krugman, a proponent of the benefits of the North American Free Trade Agreement (NAFTA), emerged as a major skeptic about the advantages of the Trans-Pacific Partnership.[30]

Proponents of open US trade policies, acknowledging that they have adverse effects on some Americans, favor programs to help those that are harmed. Successive Congresses since the Kennedy years have authorized the Trade Adjustment Assistance (TAA) program to help farmers, workers, businesses, and communities cope with the damage caused by imports. President John Kennedy put it this way in a special message to Congress in 1962: "When considerations of national policy make it desirable to avoid higher tariffs, those injured by that competition should not be required to bear the full brunt of the impact. Rather, the burden of economic adjustment should be borne in part by the Federal Government."[31]

TAA has been a constant in US trade policy, renewed many times over the years. However, in part because of budget constraints in recent years, it has not kept up with the problem of helping workers, businesses, and communities adjust to the impacts of trade. Over the years, it has disbursed roughly $1 billion annually and yet has assisted only some of the many workers affected by job displacement.

In 2015 Congress reauthorized the TAA to spend $450 million a year through 2021 as part of congressional approval of President Obama's trade negotiation authority. Many advocates of trade have argued for expanded efforts by the US government to help those who have lost their jobs from both trade and technology, but these efforts have fallen short of advocates' hopes.[32] The TAA reauthorization in 2015 was considered a major victory by such proponents, however, because the program was extended for seven years and the number of people eligible was expanded.[33]

Case Study of Loyalty: Divided over NAFTA

Few examples illustrate the deeply mixed feelings among Americans over trade better than the debate in the United States in the early 1990s over the North American Free Trade Agreement, which opened up nothing less than a new epoch in the world of trade relations. After decades of globally organized efforts to lower trade and investment barriers with a multitude of nations starting in the 1960s, NAFTA was the first trade pact between the United States, which was joined by Canada in the deal, and a major poorer, lower-wage country. Policymakers in the administrations of George H. W. Bush and Bill Clinton aimed not simply to boost exports to Mexico, which had higher barriers for US goods than the United States had for Mexican goods. They and other backers of NAFTA also hoped to lift a struggling and impoverished neighboring country by mobilizing foreign trade and investment to stimulate Mexico's political and economic reforms, stabilize a country that was veering close to the status of a failed state, and in the process discourage its citizens from flooding illegally across the border to the United States. The debate served as a template for future discussions, including the arguments over the Trans-Pacific Partnership (TPP) and other trade accords in 2015.

NAFTA committed the United States and Mexico to eliminating all tariffs over a 10-year period, except for some agricultural products that were to be phased out after 15 years. The loss of jobs was a major part of the debate, as was the opportunity to turn globalization to US advantage, but there was also some discussion about the moral issue of helping lift economic opportunity among Mexicans and stabilizing it as a country with problems that had caused immigration to the United States to increase. Also important in the debate was the simple question of whether either side was being honest in assessing the gains and losses to be obtained from opening trade with a poor neighboring country. Lawmakers, not surprisingly, shied away from dealing with the issues in abstract moral terms. Instead they addressed the needs of their own constituents. The axiom that all politics are local was writ large with NAFTA.

The NAFTA story began with the opening of Ronald Reagan's candidacy for president in 1979. His announcement included a little-noticed proposal for an economic cooperation agreement with Canada and Mexico. A former governor of California, Reagan carefully avoided the words "trade agreement." Part of his aim appeared to be to wean Mexico off its socialist ideology and hostility to imports and foreign investment. But Mexico was not ready to do so.[34] Reagan's successor, the first president Bush, revived the proposal in the late 1980s, promising to sweeten the deal by opening debt relief discussions with Mexico, according to Mexican president Carlos Salinas de Gortari. Salinas initially rejected this second approach, but then realized that the world had changed since the fall of the Berlin Wall, the collapse of the Soviet Union, and the growing economic integration of Europe. Mexico, he reasoned, needed to keep pace with these developments. "Globalization became an inevitable force," Salinas later said. "We had to confront this new political and economic reality."[35]

In the 1992 presidential campaign, most Democrats voiced concerns about trade deals they feared would hurt American workers and growers. Clinton, then the Democratic nominee and governor of Arkansas, claimed he could have negotiated a better deal. Once in the White House, he persuaded Mexico to accept several "side agreements" to ensure better enforcement of its labor and environmental laws, a step aimed at ensuring that Mexico's cheap imports did not exact a social cost for Mexicans—and also ensuring that imported goods would be a bit more expensive and less competitive with US goods. On the eve of the vote in Congress in late 1993, Clinton brought Presidents Gerald Ford, George Bush, and Jimmy Carter to the White House to support ratification, framing the issue in terms of its benefits to Americans rather than Mexicans. "NAFTA means jobs, American jobs and good-paying American jobs," he said. "If I didn't believe that, I wouldn't support this agreement."[36]

But the obstacles to approval in 1993 were formidable. In April of that year, *Businessweek* magazine called NAFTA "an unprecedented, politically explosive First World–Third World marriage" in which the United States would face competition posed by 10 million "skilled and semiskilled workers" at plants producing autos, TVs, computers, and other goods.[37] The *Wall Street Journal* reported that 455 executives said in a poll that they were "inclined to move some manufacturing to Mexico in the next few years" and that "more than one third of US companies" think the accord "will be at least somewhat unfavorable for American workers."[38]

The most memorable episode of the disputes occurred on CNN's *Larry King Live* show on November 9, 1993, in a debate between Vice President Al Gore and billionaire businessman H. Ross Perot. Perot had warned the previous year that NAFTA would produce a "giant sucking sound" of jobs lost, specifically claiming that 5.9 million jobs might disappear under the agreement. Put differently, he warned that half of US manufacturing jobs would be moving to Mexico. In the debate, Perot claimed that NAFTA, far from helping Mexican workers, would perpetuate their mistreatment. "Livestock in this country, and animals, have a better life than good, decent, hardworking Mexicans working for major US companies," he declared. Gore responded by accusing Perot of embracing the philosophy of the Smoot-Hawley Tariff of 1930, which economic historians say helped deepen the Great Depression by raising trade barriers. He showed a picture of Senator Reed Smoot and Representative Willis C. Hawley and sarcastically said Perot should hang it on his wall. When Gore declared that NAFTA was a "good deal" that would lead to more jobs, Perot shot back: "And there is a tooth fairy and there is an Easter Bunny." [39]

A significant aspect of Perot's arguments was that they went far beyond Mexico into making the case for economic autonomy of the kind reminiscent of the Corn Laws in Britain in the early 19th century. Perot claimed that after World War II the United States had been hoodwinked into importing from countries it had defeated out of a misguided attempt to help them get back on their feet. It was dangerous, he said, to import steel from Europe and Asia, aluminum from Russia, oil from the Middle East, and integrated circuits from Asia, where Toyota hired a "war criminal" to run one of its plants in Japan. In the 1992 presidential campaign, Perot, who ran as an independent, even suggested that the United States had been short-sighted in building up Germany and Japan after World War II, turning them into economic competitors.[40] It was a bold assertion, but Perot was suggesting that it had not been worth it to turn onetime enemies into prosperous allies at the cost of American jobs. In effect, he was attacking the entire postwar rationale for freer trade and investment aimed at building a stable new world order based on economic integration and shared prosperity.

Clinton's arguments rested on the theme that the United States should not wish away the challenges posed by global interdependence. "Nothing we do, nothing we do in this great capital can change the fact that factories or information can flash across the world, that people can move money around in the blink of an eye," he declared. "Nothing can change the fact that technology can be adopted, once created, by people across the world and then rapidly adapted in new and different ways by people who have a little different take on the way the technology works. For two decades, the winds of global competition have made these things clear to any American with eyes to see."[41] But the key to his NAFTA advocacy was that it would create 200,000 jobs in its first two years and a million jobs in its first five years.

To back up his numbers, Clinton cited what he said were 19 studies "by liberals and conservatives alike," and he claimed that 18 of them had concluded "there will be no job loss" resulting from approving the trade pact.[42] If he was referring to a report by the Congressional Research Service (CRS) the previous April 1993 estimating that "at least 20 studies have concluded that NAFTA will have little overall or net effect on US employment and wages," he left something out. The CRS also said that any gains and losses would be small and would "essentially balance each other out."[43] Basic economic theory holds that trade, in a full employment environment, does not "create" or "destroy" the total number of jobs but that it alters the composition of the workforce, with different kinds of jobs created to balance out those lost.[44] Winners might equal losers, but that did not mean that the losers would get the jobs created for winners. The CRS said that among the "winners" from NAFTA would be some US farmers and producers of textiles, apparel, chemicals, machinery, electronics, and auto parts. Financial, legal, accounting, insurance, and technology services would also gain. But many farm producers, including growers of fresh fruits and vegetables, would be hurt, along with manufacturers in some of the same sectors that would gain, including textiles, apparel, appliances, consumer electronics, autos and auto parts, and furniture because Mexican goods in these areas would be more competitively priced. "Which side is right—those who view NAFTA as an opportunity or those who view it as a threat?" the CRS asked. "Arguably, both are."[45]

Thus the arguments made by the president and NAFTA's critics came down to jobs at home versus jobs abroad, jobs for middle-class Americans versus jobs for poor Mexicans, jobs for some parts of the country versus job losses for other parts. The US Commerce Department estimated that every $1 billion in exports generated 19,000 jobs. (Because of gains in productivity since the early 1990s, in 2012 the department lowered its estimate of jobs created directly and indirectly by $1 billion in exports to a little more than 5,000 jobs.[46]) But at one congressional hearing, Senator Carl Levin, a Michigan Democrat, dismissed Clinton's claim that NAFTA would create 200,000 new jobs during its first two years as "not credible" because it failed to count the jobs displaced by imports and plants shifting to Mexico.[47] He demanded that the Commerce official giving testimony calculate the number of jobs that might be lost to balance those to be gained. "We haven't done that calculation," responded the official, adding that such an exercise would be "just very difficult to do." Levin asked whether the official would concede that NAFTA would produce at least some job losses. "I would concede that," the official replied, asserting that, on the other hand, many of these losses would have occurred anyway because of competition by other low-wage trading partners in Asia.[48]

During the congressional debate, a *New York Times* economics reporter said that Clinton's support of NAFTA "represents one of the most courageous acts of his young presidency" because lost jobs were always felt more acutely than jobs created, and many of these losses would occur in Democratic voting districts. "No congressman would vote for a measure that lost 10,000 jobs in his district," Senator Bill Bradley, the New Jersey Democrat (and a NAFTA supporter), said. "What you lose is always more vivid than what you gain."[49] Indeed, an analysis of congressional voting patterns published in 2006 unsurprisingly found that lawmakers' votes were determined by the "expected job gains/losses" in each district as well as the influence of organized labor.[50]

A common theme of the congressional debate was the excruciating nature of the dilemma it posed. Lawmakers confessed that they were torn by loyalties to their own communities versus the larger good of the country, if not that of a neighboring poor country. "NAFTA has got to be one of the most difficult decisions I have ever made since I came to Congress," said Representative Marty Martinez of California, who ended up voting "no."[51] The entire debate amounted to combat by anecdote. Sad stories and success stories competed with each other. The stories of loss tended to be the most compelling. An Arizona Democrat lamented that a yogurt manufacturer in his district would be moving to Mexico. A Georgia congressman said his state's peanut farmers would be wiped out. A lawmaker cited the decision by Green Giant to shut down a plant employing 800 in Watsonville, California, and move all the jobs to Gigante Verde in Mexico.[52]

Some lawmakers were frank enough to say that even if there were net gains from NAFTA, they were not worth losses among those hurt. "Nobody knows exactly how many jobs we will wind up winning or losing net," said Representative David Obey of Wisconsin. "But we do know, even the administration admits, that there will be at least 200,000 people who will lose their jobs. And what are we giving to them? Table scraps."[53]

NAFTA proponents came armed with job numbers from their constituents and local chambers of commerce. An Arizona Republican said 14,000 new jobs had been created in the previous year because of trade with Mexico. An Indiana congressman spoke of 95,000 "Hoosier jobs" to be created in auto parts, agribusiness, and steel. Others cited jobs to be created at Kodak, Xerox, General Motors, Bausch and Lomb, and various chemical, telecommunications, and high-tech businesses.[54] A wave of emotion engulfed the House as it voted. Representative Marcy Kaptur of Ohio wept openly as the votes were cast in favor, 234–200. As predicted, most Republicans voted yes and most Democrats no, despite Clinton's advocacy.[55]

The Senate debate, by contrast, was an anticlimax, but the same arguments were heard, with some additional rhetorical flourishes suggesting that gains outweighing losses did not matter to those who suffered from jobs going elsewhere. Senator Edward Kennedy of Massachusetts derided the concept of a "net gain"—a "little word with big implications—net." Warming to the tortured pun, he said, "That word slips easily off economists' tongues. But it has a devastating impact on all those who are caught in the net and whose jobs and livelihoods are at risk."[56] In the end, however, Kennedy voted yes, as did 60 of his Senate colleagues; the vote was 61–38. Clinton, welcoming the vote, repeated his job claims but acknowledged there would be some losses. "This is the world we face," he said. "We cannot stop global change. We cannot repeal the international economic competition that is everywhere."[57]

The Continuing Trade Debate

The debate over NAFTA has never gone away. It has shadowed every free trade agreement since its enactment, and it was cited repeatedly in Congress in the first decade of the 21st century by opponents of trade agreements with Colombia and South Korea. NAFTA cast its shadow over the debate in Congress on whether to authorize President Barack Obama to negotiate trade agreements between the United States and Europe—the Transatlantic Trade and Investment Partnership (TTIP)—and between the United States and 11 Asia-Pacific nations—the Trans-Pacific Partnership. In fact, the TPP was specifically and routinely derided by critics as "NAFTA on steroids."[58] It was, they said, an accord that would kill American jobs, contribute to inequality and wage stagnation, encourage sweatshops in Asia and Latin America, weaken environmental and food safety protections in the United States and its trading partners, protect the patents of pharmaceutical companies, and create an extrajudicial body that would allow multinational organizations to sue governments over regulations they consider harmful to profits.

The Obama administration argued that the TPP would make it easier to sell American-made products overseas, impose strong and enforceable labor and environmental standards on trading partners, and expand jobs in the small business sector by enabling these businesses to export to fast-growing parts of Asia and Latin America. Echoing some of the arguments on NAFTA, Michael Froman, the administration's special trade envoy, argued that exports were currently supporting nearly 12 million US jobs, and that these jobs were 18 percent higher-paying than jobs outside the export sector. With the TPP and TTIP in place, Froman said, "American workers, farmers, ranchers, and businesses of all sizes will have access to nearly two-thirds of the global economy."[59] As with NAFTA, geostrategic arguments were among the most powerful advanced by Obama and his team. The president contended that a TPP would enable the United States, not China, to write the rules on investment, trade, intellectual property protection, and environment and labor standards as trade and investment expand. The accord was advertised as achieving two contradictory aims: setting up an economic alliance that could challenge China's dominance of East Asia and setting up a regime that China could join in the future if it adopted the TPP's standards.

Republicans in Congress overwhelmingly supported the TPP, but Obama was unable to get more than a small minority of members of his own party to back him. Democrats were more persuaded by critics that the TPP would cost jobs and reinforce the problems facing the US working class. The AFL-CIO waged an expensive campaign of advertising and lobbying in the districts of wavering Democratic lawmakers, and the trade authorization legislation barely squeaked through Congress in mid-2015. It remained to be seen whether the final agreement of TPP, reached in October 2015, would be approved by Congress.

A striking truism about NAFTA, the TPP, and all recent trade debates is their illustration of what the psychologist Daniel Kahneman, Nobel Laureate in economics, calls "loss aversion"—the phenomenon that the fear of loss is a much more intense emotion for most people than the hope of gaining something, even if the potential gain outweighs the loss. Kahneman is one of the pioneers in economics who has jettisoned the longtime concept embraced by economists that human behavior in the economic sphere is rational. Instead, he has advanced a "prospect theory" that humans apply to real-life situations in which they weigh hopes, fears, and other emotions in a less than fully logical manner.[60] Along with his colleague Amos Tversky, Kahneman has written that "loss aversion" tends to favor the status quo over change in any case.[61]

The claims of 1993 about NAFTA remain instructive for all trade debates. Both Clinton's claim of 200,000 jobs created in two years and Perot's claim that 5.9 million US jobs would disappear turned out to be overblown. The prediction of many experts supporting NAFTA that the United States would export more to Mexico than it imported proved to be completely erroneous, largely because of the peso crisis later in 1994, resulting in a devaluation that scared away investors and reduced imports. As described in chapter 7, only a US-orchestrated rescue of Mexico in 1995 staved off an even worse disaster.

But by nearly every measure, the United States, Canada, and Mexico are far more economically interdependent today, and perhaps more prosperous, than they were before NAFTA. Some would argue that NAFTA has stabilized their relationship politically as well—no small consideration considering the vexing issue of immigration over the heavily guarded border. US exports to Mexico are now more than the combined total of its merchandise exports to Germany, France, the United Kingdom, and the Netherlands. Since 1993, US trade with Mexico has quintupled in nominal terms, compared with three times with the rest of the world.[62] But the Congressional Research Service concluded in 2012 that only "some" of the increase in US-Mexico trade since the 1990s was attributable to NAFTA, and that this increase had little impact on the US economy because trade with Mexico amounted to less than 3 percent of US GDP. According to the CRS, a sharp rise in US investment in Mexico resulted primarily from Mexico's unilateral steps to liberalize restrictions on investment rather than from NAFTA itself, although the possibility of increasing exports under NAFTA encouraged investments to flow into the country.[63] Meanwhile, in 2005 Gary Clyde Hufbauer and Jeffrey Schott of the Peterson Institute for International Economics concluded that their earlier estimate of 170,000 jobs added "over several years" was "statistically insignificant" in any case considering the tens of millions of jobs gained and lost each year in the labor market. They said it was "impossible to say whether the plants moved because of NAFTA or would have left in search of lower labor costs regardless."[64]

Yet the uneasiness of critics in the labor movement continues. In 2003, for example, the Economic Policy Institute said that NAFTA had "caused the displacement of production that supported 879,280 jobs," a figure derived from how many more jobs there would be if the US trade deficit with Canada and Mexico had not grown since 1993. The analysis assumed, dubiously, that anything imported from Mexico would have been made in the United States if NAFTA had not been enacted—and therefore that anything imported from Mexico potentially cost US jobs.[65] But as previously stated, trade deficits tend to go up at the same time that employment and growth also expand in the United States, not the other way around. Indeed, despite rising trade deficits with Mexico, the prediction of many that NAFTA would unleash a new wave of unemployment faded in the 1990s. In the seven-year period after NAFTA, the United States added nearly 17 million jobs, and unemployment dropped from 6.9 to 4 percent.[66] As for Mexico, from 1993 to 2013 its exports expanded 640 percent, and its real GDP per capita grew 31 percent—not as well as in some other Latin American countries such as Chile but enough to vault Mexico into the category of the world's major emerging-market countries.[67]

Facts, by themselves, will never definitely resolve the arguments over the effects of trade and investment on inequality or economic justice in general. Globalization, and indeed the full array of political conflicts in the modern era, must be resolved by men and women, not idealized concepts and truths. Moreover, citizens of the world must address these conflicts through political or representative institutions, imperfect as they must be—the subject of the next chapter.