

ISSUES IN PERSPECTIVE

Dr. James P. Eckman, President Emeritus
Grace University, Omaha, Nebraska
June 3, 2017

Understanding Globalism and the American Economy

As I have argued in previous editions of *Issues in Perspective*, one of the major debates occurring within the American political culture and which is also an aspect of international affairs is globalism vs. economic nationalism. The appeal of economic nationalism over globalism explains the electoral victory of Donald Trump and, to some extent, the Brexit phenomenon. But as with so many things, there is a need for balance and clear thinking in this debate. For example, in a perceptive article in the *Washington Post* entitled, “Everything you need to know about trade economics, in 70 words,” George P. Shultz (former U.S. secretary of labor, treasury and state, and a distinguished fellow at the Hoover Institution) and Martin Feldstein (professor of economics at Harvard University and former chairman of the Council of Economic Advisers and president of the National Bureau of Economic Research) wrote:

If a country consumes more than it produces, it must import more than it exports. That’s not a rip-off; that’s arithmetic.

If we manage to negotiate a reduction in the Chinese trade surplus with the United States, we will have an increased trade deficit with some other country.

Federal deficit spending, a massive and continuing act of dissaving, is the culprit. Control that spending and you will control trade deficits.

The simplicity of this “70-word primer” is why it is so profound: The imbalance between imports and exports, the trade surplus with China and the US penchant for massive deficit spending are all interrelated. There are no simple solutions to our trade deficit. Attacking globalism per se is not the answer. Making hard choices within the United States is the place to begin dealing with America’s economic problems—not attacking globalism alone.

Economist Robert Samuelson has written perceptively and convincingly about the effects of globalism on the United States. For example, he draws on a recent report by the Peterson Institute for International Economics. Allow me to summarize some of his salient points:

- Trade has contributed to the rise of American living standards since World War II. The report estimates those gains at \$2.1 trillion on an annual basis, which was about 11% of the \$18.5 trillion economy in 2016. “Put differently, slightly more than one-tenth of what we produce and consume comes from trade’s cumulative benefits.” Imports are often cheaper than US products, which aids significantly lower-income households.

Foreign competition and technology often force US firms to lower costs and improve reliability. Such competition has arguably made GM vehicles better because they compete with Toyota. Exports create jobs and economies of scale for US firms.

- Job loss caused by trade in a labor market of 160 million workers is modest. In recent years, for example, the US economy added about 200,000 jobs per month. In contrast, the Peterson study estimates that from 2001 to 2016, imports displaced 312,500 jobs per year. Job loss remains a challenge and the need to retrain and re-tool American workers is a fact, but trade is only a small part of overall job displacement. “Other causes include automation, technological obsolescence and recessions.”
- The benefits from expanded trade significantly outweigh the costs from job displacement—lost wages and prolonged unemployment. “Since 2003, benefits have exceeded costs by about 5-to-1, the [Peterson] study estimates. The ratio is about 50-to-1 since World War II. Large gains from trade liberalization—cutting tariffs and eliminating quotas—were easier to achieve in the first postwar decades, when protectionism was widespread.”

In short, the political culture of the United States puts economics and politics at a loggerhead; when what we need is clear thinking. Globalism is a fact and cannot be rolled back! Samuelson cites just a few examples of this fact: Containerization, fiber-optic cables, air freight and the Internet. A significant increase in protectionist policies (as advocated by President Trump for example) will be counterproductive and could actually reduce economic growth. Trump’s interpretation of globalization shifts blame abroad: “Foreigners—their exports, subsidies, exchange rates or whatever—are the villains. We are the victims.” This was Trump’s selling point and it got him elected. But his simplicity in analyzing the dilemma will not solve the problems associated with globalism. Utilizing material from *The Economist*, let me explain:

- Trump argues that trade deficits are the gauge we must use to determine the unfairness of our trade deficit. But the reality is that the US trade deficit is better understood as the gap between how much Americans save and how much they invest.
- Trump is obsessed with the effect of trade on manufacturing jobs, even though manufacturing employs only 8.5% of America’s workers and accounts for only 12% of GDP. Service industries do not even seem to register with Trump.
- Technology, not trade, is ravaging American retailing, an industry that employs more people than manufacturing. Trump’s economic nationalism will speed automation, which will future reduce manufacturing jobs.
- “Viewing the trade deficit as cheap borrowing exposes the tension at the heart of Trumponomics. If they are to do without the foreign capital they currently import, thus closing the trade deficit, Americans must save more. Yet rather than squirreling away its

money, Mr. Trump wants the private sector to go on a spending-and-investment spree, spurred on by deficit-financed tax cuts.”

The Economist concludes that “The world economy has endless moving parts, many of which could conspire to make Trumponomics seem like a success or a failure. But economic logic and past experience dictate that government deficits and investment booms drive trade deficits up. Sooner or later, Mr. Trump must confront this fact.”

President Trump won the Electoral College because his brand of economic nationalism tapped into legitimate concerns and effects of globalism. But the simplicity of his message ignores the complicated nature of the US economy and its trade deficit. Making America into a victim of globalism while ignoring American complicity in this problem is not leadership and will not solve our economic problems. President Trump must take the time to explain all of this to the American people and reasonably renegotiate some of the trade agreements (e.g., NAFTA) but not abandon the absolute necessity of international trade to the American economy. He has his work cut out for him on this matter. May he do so with wisdom and foresight.

See George P. Shultz and Martin Feldstein in the *Washington Post* (5 May 2017); Robert Samuelson in the *Washington Post* (14 May 2017); and *The Economist* (13 May 2017), pp. 9, 18-21.