America's dangerous neo-protectionism

By Kaushik Basu
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US President Donald Trump is about to make a policy mistake. It will hurt – particularly in the short run – countries across Sub-Saharan Africa, Latin America, and Asia, especially emerging economies like China and Sri Lanka (which run large trade surpluses vis-à-vis the United States) and India and the Philippines (major outsourcing destinations). But none will suffer more than the US itself.

The policy in question is a strange neoliberal protectionism – call it "neo-protectionism." It is, on the one hand, an attempt to "save" domestic jobs by slapping tariffs on foreign goods, influencing exchange rates, restricting inflows of foreign workers, and creating disincentives for outsourcing. On the other hand, it involves neoliberal financial deregulation. This is not the way to help the US working class today.

American workers are facing major challenges. Though the US currently boasts a low unemployment rate of 4.8%, many people are working only part-time, and the labor-force participation rate (the share of the working-age population that is working or seeking work) has fallen from 67.3% in 2000 to 62.7% in January. Moreover, real wages have been largely stagnant for decades; the real median household income is the same today as it was in 1998. From 1973 to 2014, the income of the poorest 20% of households actually decreased slightly, even as the income of the richest 5% of households doubled.

One factor driving these trends has been the decline in manufacturing jobs. Greenville, South Carolina, is a case in point. Once known as the Textile Capital of the World, with 48,000 people employed in the industry in 1990, the city today has just 6,000 textile workers left.

But the economics driving these trends is far more complex than popular rhetoric suggests. The major challenge facing labor today lies only partly in open trade or immigration; the much bigger culprit is technological innovation and, in particular, robotics and artificial intelligence, which have boosted productivity substantially. From 1948 to 1994, employment in the manufacturing sector fell by 50%, but production rose by 190%.

According to a study conducted at Ball State University, if productivity had remained constant from 2000 to 2010, the US would have needed 20.9 million manufacturing workers to produce what it was producing at the end of that decade. But technology-enabled productivity growth meant that the US actually needed just 12.1 million workers. In other words, 42% of manufacturing jobs were lost during that period.

While some forms of targeted protection may be able to play a role in supporting US workers, neo-protectionism is not the answer. And it would not just be ineffective; it would actually do substantial harm.

The simple fact is that, thanks to everything from efficient and safe shipping lanes to digital technology and the Internet, a large pool of cheap labor is available to global producers. American attempts to stop domestic firms from tapping that resource would not change that reality, or stop companies elsewhere from doing so. As a result, US producers would become less competitive vis-à-vis those from, say, Germany, France, Japan, and South Korea. Meanwhile, financial-sector deregulation would exacerbate economic inequality within the US.

An effective solution to the problems facing American workers must recognize where those

problems' roots lie. Every time a new technology enables a company to use less labor, there is a shift from the total wage bill to profits. What workers need, however, is more wages. If they aren't coming from employers, they should come from elsewhere.

Indeed, the time has come to consider some form of basic income and profit-sharing. Finland has experimented with this. In the emerging world, India , in its most recent economic survey, has outlined a full scheme.

In the same vein, the tax system should be made much more progressive; as it stands, there are far too many loopholes for the ultra-wealthy in the US. Investment in new forms of education that enable workers to take on more creative tasks, which cannot be completed by robots, will also be vital.

Some on the American left – for example, Senator Bernie Sanders – have called for such policies. They understand that the conflict is one of labor versus capital, whereas the neo-protectionists harp on competition between US and foreign labor. But it is the neo-protectionists who have gained the most power, and they are now threatening to pursue an agenda that will clip the wings of US producers, ultimately undermining America's position in the global economy.

When Greenville saw its manufacturing sector's competitive advantage begin to wane, it could have tried creating artificial incentives to protect companies. But, instead, it created incentives for other kinds of businesses to move in. This diversification bolstered the city's economy, even as it lost the majority of its textile-manufacturing jobs.

That is how the US should be thinking today. Had US presidents in the past used the neo-protectionist policies now being proposed to hold onto low-skill jobs when those jobs first began to move to developing countries, the US economy today might well have a larger, labor-intensive manufacturing sector. But it would also look a lot more like a developing economy.

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