How to Make Trade Work for Workers

Charting a Path Between Protectionism and Globalism

Robert E. Lighthizer

The new coronavirus has challenged many long-held assumptions. In the coming months and years, the United States will need to reexamine conventional wisdom in business, medicine, technology, risk management, and many other fields. This should also be a moment for renewed discussions—and, hopefully, a stronger national consensus—about the future of U.S. trade policy.

That debate should start with a fundamental question: What should the objective of trade policy be? Some view trade through the lens of foreign policy, arguing that tariffs should be lowered or raised in order to achieve geopolitical goals. Others view trade strictly through the lens of economic efficiency, contending that the sole objective of trade policy should be to maximize overall output. But what most Americans want is something else: a trade policy that supports the kind of society they want to live in. To that end, the right policy is one that makes it possible for most citizens, including those without college educations, to access the middle class through stable, well-paying jobs.

That is precisely the approach the Trump administration is taking. It has broken with the orthodoxies of free-trade religion at times, but contrary to what critics have charged, it has not embraced protectionism and autarky. Instead, it has sought to balance the benefits of trade liberalization with policies that prioritize the dignity of work.

Under this new policy, the Office of the U.S. Trade Representative, which I head, has taken aggressive and, at times, controversial

ROBERT E. LIGHTHIZER is U.S. Trade Representative.

actions to protect American jobs. But it has done so without sparking unsustainable trade wars and while continuing to expand U.S. exporters' access to foreign markets. The U.S.-Mexico-Canada Agreement (USMCA), which was first signed in 2018 and is scheduled to enter into force this year, offers the best and most comprehensive illustration of this new approach. This new way of thinking has motivated the administration's policies toward China and the World Trade Organization (WTO), as well. In addressing the challenges that remain, the administration has the same goal: a balanced, worker-focused trade policy that achieves a broad, bipartisan consensus and better outcomes for Americans.

THE LIMITS OF INTERDEPENDENCE

Before World War II, tariffs were high by contemporary standards. From the 1820s until the late 1940s, the weighted average U.S. tariff (which measures duties collected as a percentage of total imports) rarely dipped below 20 percent. President Franklin Roosevelt and the New Deal Congress ushered in a period of relative tariff liberalization in the 1930s, but the rate remained in the mid- to high teens throughout the decade. After the war, however, both Democrats and Republicans came to champion tariff reduction as a means of preventing yet another conflict, arguing that trade fostered interdependence between nations. Trade liberalization therefore came to be seen not just as a tool of economic policy but also as a path to perpetual peace.

Subsequent events seemed to vindicate this view. Exports to U.S. consumers helped Japan and West Germany rebuild and become responsible members of the world community. The tearing down of trade barriers within Europe, starting with the establishment of the European Coal and Steel Community in 1951, surely contributed to postwar security, as well, by bringing the democracies of Western Europe closer together and setting a template for future cooperation.

But interdependence does not always lead to peace. In the United States, economic ties between the North and the South did not prevent the Civil War. Global trade grew rapidly in the years right before World War I; exports as a percentage of global GDP peaked at nearly 14 percent in 1913, a record that would hold until the 1970s. Likewise, it would be hard to argue that the rise of Germany as a major exporter in the late nineteenth century helped pacify that country in the first half of the twentieth. Japan's dependence on raw materials from the United States motivated its attack on Pearl Harbor. More recently, China's accession to the WTO in 2001—which was supposed to make the country a model global citizen—was followed by massive investments in its military capabilities and territorial expansion in the South China Sea.

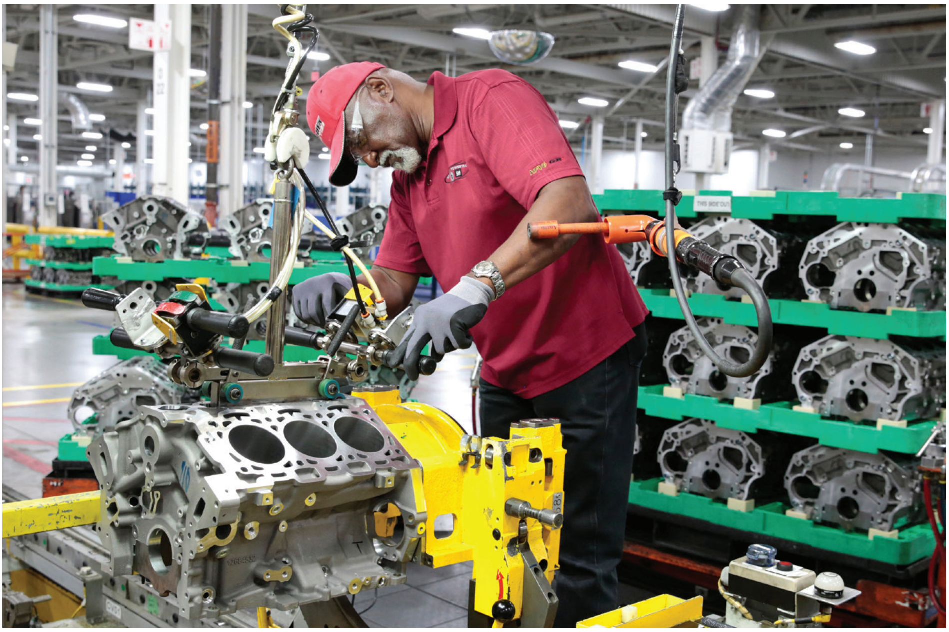
On the flip side, conflict over trade is not always destabilizing or a threat to broader foreign policy objectives. The NATO alliance survived the tariff hikes associated with both the 1960s "chicken war," when the United States clashed with France and West Germany over poultry duties, and the 1970s "Nixon shock," when the United States effectively abandoned the Bretton Woods system. The United States and Japan fought about trade in the 1980s, but their bilateral security alliance stayed strong. Countries, like people, compartmentalize.

Conflict over trade is not always destabilizing.

There may be situations when it is appropriate to make concessions on trade in order to achieve broader diplomatic aims, but one should keep in mind that such bargains can prove costly in the long run. Letting India join the General Agreement on Tariffs and Trade (the precursor to the WTO) in 1948 with nearly a third of its industrial tariffs uncapped, for example, no doubt made sense to Cold Warriors, who thought that it would help bring India into the U.S. camp. Yet the negative repercussions of that decision persist to this day, now that India has become one of the world's largest economies and, at times, a troublesome trading partner for the United States. Over the years, such concessions have piled up.

Sometimes, the tendency to view trade through the lens of diplomacy has led to excess timidity. The most vivid example is the failure of the George W. Bush and Obama administrations to meaningfully confront China's market-distorting subsidies and policy of forcing foreign companies to share their technology. But there are many others. For instance, until the current administration took office, the United States had never invoked the procedures for enforcing environmental commitments it had bargained for in its free-trade agreements. The Trump administration has used those tools to crack down on illegal timber harvesting in Peru and illegal fishing in South Korea.

Although the United States should not wield its economic leverage blithely, fear of rocking the diplomatic boat cannot be an excuse for inaction. The Trump administration has demonstrated that it is pos-



Made in U.S.A.: a General Motors worker in Romulus, Michigan, August 2019

REBECCA COOK / REUTERS

sible to take targeted yet aggressive trade actions while managing the risk of escalation. Despite the "sky is falling" rhetoric that has greeted many of the administration's policies, the United States has remained the most open of the world's major economies throughout Donald Trump's presidency. Even with the recent tariffs imposed against China, along with efforts to rescue the domestic steel, aluminum, and solar power industries, the United States' weighted average tariff was only 2.85 percent in 2019 (and 1.3 percent for imports from countries other than China). That's slightly higher than the 1.5 percent rate that prevailed during the last year of the Obama administration but still lower than a comparable figure for the EU: the 3.0 percent weighted average rate it imposes on imports from other WTO members.

History will judge the ultimate effectiveness of the Trump administration's targeted duties. But experience has already proved wrong the Cassandras who said that its actions would inevitably lead to a 1930s-style trade war.

THE EFFICIENCY OBSESSION

The other dominant school of thought in trade policy is the economist's perspective. For adherents of this faith, the sole objective of trade policy is market efficiency. Lower tariffs and nontariff barriers reduce the costs of producing and distributing goods and services;

that, in turn, makes society as a whole better off—so the argument goes. How such policies affect the men and women who do the producing and distributing is of little or no consequence.

Rather than envisioning the type of society desired and fashioning a trade policy to fit, economists tend to do the opposite: they start from the proposition that free trade should reign and then argue that society should adapt. Most acknowledge that lowering trade barriers causes economic disruption, but very few suggest that the rules of trade should be calibrated to help society better manage those effects. On the right, libertarians deny that there is a problem, because the benefits of cheap consumer goods for the masses supposedly outweigh the costs. On the left, progressives promote trade adjustment assistance and other wealth-transfer schemes as a means of smoothing globalization's rough edges.

The outsourcing of jobs from high- to low-wage places has devastated communities in the American Rust Belt.

Neither response is satisfactory. Those obsessed with efficiency tend to see employment simply as a means of allocating resources and ensuring production. In so doing, they greatly undervalue the personal dignity that individuals derive from meaningful work. Commentators from Pope Leo XIII in the nineteenth century to Arthur Brooks and Oren Cass today have written eloquently about the central role of work in a well-ordered society. Doing honest work for a decent wage instills feelings of self-worth that come from being needed and contributing to society. Stable, remunerative employment reinforces good habits and discourages bad ones. That makes human beings better spouses, parents, neighbors, and citizens. By contrast, the loss of personal dignity that comes from the absence of stable, well-paying employment is not something that can be compensated for either by increased consumption of low-cost imported goods or by welfare checks.

None of this is to suggest that market efficiency should be irrelevant. But it should not be the sole factor in trade policy, and certainly not an object of idolatrous devotion, as some have made it. When it comes to taxes, health care, environmental regulation, and other issues, policymakers routinely balance efficiency with other competing goals. They should do the same for trade.

In recent years, however, the fixation on efficiency caused many to ignore the downsides of trade liberalization. Particularly as elites came to accept free trade as an article of faith, businesses found that they could send jobs abroad without attracting much negative publicity. General Electric's hard-charging CEO from 1981 to 2001, the late Jack Welch, told suppliers at one point that his company would stop doing business with them if they weren't outsourcing jobs. "Supply chain relocation" became a cure-all peddled by management consulting firms. Unfortunately—as COVID-19 has made painfully apparent—many companies caught up in the outsourcing frenzy failed to appreciate the risks.

Economic groupthink also led policymakers to stop worrying about trade deficits. In recent years, the U.S. trade deficit in goods has rivaled the size of many G-20 economies. In theory, if the United States could produce enough goods domestically to eliminate its $345 billion goods deficit with China, that would be the equivalent in revenue terms of adding two and a half more General Motors to the U.S. economy. Yet in most policy circles, discussion of the trade deficit has been limited to why it supposedly doesn't matter.

Many take comfort in the following trope: "I run a trade deficit with my barber; since both of us are better off as a result, trade deficits are benign." This analogy is flawed. A deficit with the barber is one thing, but if I run a deficit with the barber, the butcher, the baker, the candlestick maker, and everyone else with whom I transact, the situation is altogether different. Moreover, long-term trade deficits must be financed through asset sales, which can prove unsustainable over time. To carry the analogy further, the trade deficit I run with providers of goods and services I consume is benign if it is offset by the surplus I run with my employer through the sale of my labor. But the situation may prove unsustainable if I'm funding my consumption by taking out a second mortgage on my home. And that is essentially what the United States has been doing over the past three decades by running a trade deficit year after year. These persistent deficits are financed by net inflows of capital—which means that every year, the country must sell U.S. assets to foreign investors in order to sustain the gap between exports and imports.

Academic theory also cannot hide the basic fact that if a country imports goods it could produce domestically, then domestic spending is employing people abroad rather than at home. This tradeoff might be worth it if it frees up workers to move to more productive, higher-paying jobs. It might make sense, too, if reciprocal agreements for market access create new export-related jobs that replace those lost to competition from cheaper imports. But persistent trade deficits should, at the very least, cause policymakers to question the tradeoff and inquire as to the reasons behind the imbalance. Such scrutiny should increase with the size of the deficit. And particularly when trade deficits are the result of currency manipulation, a lack of reciprocity in market access, unfair labor practices, or subsidies, the United States should try to change the rules of trade.

THE DARK SIDE OF FREE TRADE

The trade policy of the future should be informed by a balanced assessment of the past. On the positive side of the ledger, lower trade barriers and the proliferation of free-trade agreements in recent decades swelled the profits of many multinational corporations. That benefited not only CEOs but also middle-class Americans who hold equities in their retirement accounts. Trade helped revive many of the country's great urban centers. Cheap imports and the rise of big-box and online retailers have made an ever-expanding class of consumer goods available to the masses. In China, India, and throughout the rest of the developing world, millions of people have been lifted out of poverty.

Yet the dark side is undeniable. Between 2000 and 2016, the United States lost nearly five million manufacturing jobs. Median household income stagnated. And in places prosperity left behind, the fabric of society frayed. Since the mid-1990s, the United States has faced an epidemic of what the economists Anne Case and Angus Deaton have termed "deaths of despair." They have found that among white middle-aged adults who lack a college education—a demographic that has borne much of the brunt of outsourcing—deaths from cirrhosis of the liver increased by 50 percent between 1999 and 2013, suicides increased by 78 percent, and drug and alcohol overdoses increased by 323 percent. From 2014 to 2017, the increase in deaths of despair led to the first decrease in life expectancy in the United States over a three-year period since the 1918 flu pandemic.

Trade has not been the sole cause of the recent loss of manufacturing jobs or of the attendant societal distress. Automation, productivity gains, foreign currency manipulation, and the financial crisis of 2008 have played key roles, as well. But it cannot be denied that the

outsourcing of jobs from high- to low-wage places has devastated communities in the American Rust Belt and elsewhere.

Of course, economic upheaval is often the price of progress, and, economists insist, comparative advantage should encourage workers to move to more productive and higher-paying jobs. But this theoretical phenomenon has failed to materialize in recent years. Compared with those who lost their jobs in earlier periods of economic change, displaced workers in modern, developed economies typically have fewer and less attractive options. In the United Kingdom in the nineteenth century, for example, the repeal of the protectionist Corn Laws prompted agricultural workers to flee the countryside for industrializing urban areas where factory jobs were waiting. By contrast, the American factory workers who were displaced beginning in the 1990s either had nowhere to go or ended up working in low-skill, low-paying service jobs.

Rather than attempt to reverse these trends, some argue that mature economies should double down on services, the digital economy, and research and development. These sectors contribute greatly to the United States' competitive edge, and the service sector employs most Americans today and will likely continue to do so for the foreseeable future. At the same time, however, it is difficult to imagine that the U.S. economy can serve the needs of working people without a thriving manufacturing sector.

The technology sector, for all its virtues, simply is not a source of high-paying jobs for working people. Over half of the United States' roughly 250 million adults lack a college diploma. Historically, manufacturing jobs have been the best source of stable, well-paying employment for this cohort. Perhaps with massive new investments in education, former autoworkers could be taught to code. But even so, there probably wouldn't be enough jobs to employ them all. Apple, Facebook, Google, and Netflix collectively employ just over 300,000 people—less than half the number that General Motors alone employed in the 1960s.

Moreover, the service and technology jobs most accessible to working people, such as data entry and call center jobs, are themselves vulnerable to offshoring. Economists have estimated that nearly 40 million service-sector jobs in the United States could eventually be sent overseas—that's more than three times the number of current manufacturing jobs in the country.

Cheerleaders for globalization are quick to point out that many products manufactured abroad were designed by engineers and researchers located in the United States. But those jobs are not safe from offshoring, either. China is investing heavily in its universities, and India has no shortage of capable engineers. In the technology sector, in particular, there are valuable synergies from having engineers located close to manufacturing facilities. The back of today's iPhone reads "Designed by Apple in California. Assembled in China"; tomorrow, it easily could read "Designed and Assembled by Apple in China."

Covid-19 has exposed other problems with the erosion of the United States' manufacturing capacity. The country has found itself overly dependent on critical medical equipment, personal protective gear, and pharmaceuticals from abroad. Even Germany and South Korea, strong U.S. allies, have blocked exports of key medical products as their own citizens have fallen ill. The crisis also has demonstrated how overextended supply chains increase the risk of economic contagion when a single link in the chain is broken. Even before the crisis reached American shores, many U.S. companies were feeling the effects of China's economic shutdown. Now, as companies prepare to reopen their U.S. operations, many still can't produce what they want, since their overseas suppliers do not yet have government permission to reopen.

The United States should not attempt to wall itself off from the rest of the world in response to the current pandemic, but it should reinforce its determination to maintain and grow its manufacturing base. Trade policy alone cannot do that. But as part of a broader suite of tax and regulatory policies designed to encourage investment in the United States, reforms to the rules of trade can play an important role.

A MODEL DEAL

A sensible trade policy strikes a balance among economic security, economic efficiency, and the needs of working people. When the administration began the task of renegotiating the North American Free Trade Agreement—one of the president's signature campaign promises—two things were clear. One was that the agreement had become wildly out of balance, badly out of date, and hugely unpopular. The second, however, was that undoing 25 years of economic integration in North America would be costly and disruptive. The challenge in negotiating the USMCA was to right NAFTA's wrongs while preserving trade with the United States' two largest trading partners.

We started by identifying the main imbalances, particularly in the automotive sector, which accounts for nearly 30 percent of North American trade. Before Trump was elected, nine of the last 11 auto plants built in North America were built in Mexico. Yet 80 percent of the cars manufactured in those facilities are sold in the United States. Over time, auto companies started to use Mexico as a place not only for assembling compact sedans but also for manufacturing high-value-added parts such as engines and transmissions, as well as for producing highly profitable trucks and SUVs. The net result was that the United States lost a third of its auto-industry jobs to Mexico: 350,000 since 1994, while Mexico gained 430,000.

NAFTA had become wildly out of balance, badly out of date, and hugely unpopular.

This wage-driven outsourcing was not simply the work of Adam Smith's invisible hand. The gap between U.S. and Mexican wages exists in part as a result of widespread corrupt labor agreements in Mexico. "Protection contracts," as these deals are known, are struck between employers and unions, but the unions do not in fact represent workers. And the workers have no opportunity to vote on the contracts. No wonder predictions that NAFTA would cause American and Mexican wages to converge never came true. In fact, wages in Mexico are lower today in real terms than they were in 1994.

The USMCA requires Mexico to eliminate protection contracts, ensure basic union democracy, and establish independent labor courts. Rather than seek to micromanage labor policies in Mexico—as critics have charged—the USMCA sets reasonable standards that correct a major source of labor-market distortion in North America. Although the new labor provisions received a chilly reception by some parts of the Mexican business community, they were warmly embraced by President Andrés Manuel López Obrador and his government. The new obligations will not prevent companies from taking advantage of efficiencies in integrated North American supply chains. But they will eliminate a form of regulatory arbitrage that hurts American workers.

The USMCA also overhauls the "rules of origin" that govern trade in the automotive sector. All free-trade agreements contain rules of origin, which require goods to be made mostly with component materials sourced from within the free-trade area in order to qualify for duty-free treatment. In theory, NAFTA's rules of origin specified that 62.5 percent of the value of an automobile had to be made up of parts manufactured in North America. But the rules contained a peculiar quirk: the only parts that counted in the equation were those listed on a schedule created in the early 1990s and frozen in time. As cars evolved, many expensive parts, such as dashboard electronics and navigation systems, simply didn't figure in the calculation of North American content. As a result, cars with more than half of their value composed of parts from outside the continent could still be exempt from duties. And the problem was only going to get worse over time, as electric and autonomous vehicles came online.

After discussions with the Canadian and Mexican governments, American labor unions, and the auto companies themselves, we arrived at a solution that will result in more investment throughout the region while still allowing manufacturers the flexibility to stay competitive. The USMCA sets a higher threshold for the minimum fraction of a car's value that must be produced within North America (75 percent). It also includes separate requirements for the minimum share of regional content in the highest-value-added parts, as well as for steel and aluminum. The USMCA makes these requirements meaningful by eliminating loopholes, and it includes a mechanism for revisiting the rules of origin in the future to keep up with industry trends.

For the first time in any trade agreement, the USMCA also includes provisions that discourage a race to the bottom in wages, by requiring that 40 percent of the value of a car and 45 percent of the value of a light truck be manufactured by workers who make at least $16 per hour. This rate is aspirational for Mexico, where wages are closer to $3 per hour, but it will create new incentives for companies to invest not only in Mexico but also in Canada and the United States. The U.S. International Trade Commission, an independent, nonpartisan federal agency, projects that increased demand for U.S.-sourced engines and transmissions alone will create roughly 30,000 new automotive-sector jobs. By my office's estimates, the effect on the entire supply chain will be close to 80,000 new jobs.

Critics have labeled these changes "managed trade," whereby governments set specific goals in lieu of letting market forces do their work. But rules of origin feature in all free-trade agreements. The key difference between those in the USMCA and those in NAFTA and other agreements is that the USMCA's rules have been designed to actually work. They will ensure that the benefits of the agreement will flow principally to Canada, Mexico, and the United States, not to other countries that have not provided reciprocal market access. Indeed, NAFTA-enabled free-riding has long undermined U.S. leverage in negotiations with other trading partners. Until now, foreign automakers have been able to obtain duty-free access to the U.S. market by setting up assembly operations in Mexico, while manufacturing most of the high-value parts outside North America. With the loopholes closed, the United States will be in a stronger position to negotiate with China, the EU, and others.

The USMCA can be updated as circumstances change. It contains a sunset clause stating that it expires after 16 years. Every six years, however, the parties will have an opportunity to review the agreement and extend it for another 16 years. These periodic reviews will force policymakers in all three countries to avoid the temptation to defer maintenance of the agreement and will allow them to respond to unanticipated developments in their economies.

THE CHALLENGES AHEAD

The principles of a worker-focused trade policy should be front and center as the United States confronts two of the most significant trade challenges it will face in the coming years: market-distorting state capitalism in China and a dysfunctional WTO.

No trade policy decision since the end of World War II proved more devastating to working people than the extension of permanent normal trade relations to China in 2000—a legal status entitling it to the lowest possible tariffs. Despite President Bill Clinton's prediction that the move would allow the United States to "export products without exporting jobs," the opposite occurred. The U.S. trade deficit with China ballooned to over half a trillion dollars at its peak, and economists have calculated that the loss of at least two million jobs between 1999 and 2011 was attributable to the influx of Chinese imports. At the same time, Beijing increasingly forced foreign companies to share their technology, a policy that resulted in the theft of billions of dollars in U.S. intellectual property and helped China become the world's top exporter of high-tech products.

Without much success, the George W. Bush and Obama administrations tried to correct these problems at the WTO. Our team has taken a different approach. We spent much of the first year of the

Trump administration investigating China's history of intellectual property theft and forced technology transfer. Where the WTO rules provided a remedy—as was the case with China's discriminatory patent-licensing practices—we filed a complaint with the WTO. But where they did not, we turned to remedies available under U.S. trade law. We carefully identified products produced by Chinese companies that had benefited from China's market-distorting practices and imposed a 25 percent duty on those products.

No trade policy was more devastating to working people than the decision to extend permanent normal trade relations to China.

We remained open to a negotiated solution, however, and in January, the administration reached a Phase 1 agreement with China under which it will stop forced technology transfer, refrain from manipulating its currency, strengthen protections for intellectual property, and eliminate a host of nontariff barriers to U.S. exports. For the first time, these commitments are in writing and enforceable through a dispute-resolution mechanism. The agreement by no means resolves all the outstanding issues, but in roughly three years, we've made more progress than the previous two administrations made in 16.

Most important—and often overlooked by knee-jerk, partisan critics of the deal—is that the administration has maintained pressure on China through a 25 percent tariff that remains on half of its exports to the United States, including nearly all high-tech products. These duties help offset the unfair advantage China has obtained through forced technology transfer and market-distorting subsidies. At the same time, China has made a series of purchasing commitments that will create long-term market access for U.S. exporters, particularly farmers. Whether there will be a Phase 2 depends on whether China complies with the terms of Phase 1 and whether it is willing to fundamentally change its model of state-run capitalism. Regardless, the policy in place today protects American jobs, blunts China's unfair advantages, and minimizes the pain to U.S. exporters and consumers.

The challenges in the WTO are also vexing. Like many international organizations, the WTO has strayed from its original mission. Designed as a forum for negotiating trade rules, it has become chiefly a litigation society. Until recently, the organization's dispute-resolution process was led by its seven-member Appellate Body, which had come to see itself as the promulgator of a new common law of free trade, one that was largely untethered from the actual rules agreed to by the WTO's members. The Appellate Body routinely issued rulings that made it harder for states to combat unfair trade practices and safeguard jobs. This was one of the reasons why the Trump administration refused to consent to new appointments to it, and on December 11, 2019, the Appellate Body ceased functioning when its membership dipped below the number needed to hear a case.

The United States should not agree to any mechanism that would revive or replace the Appellate Body until it is clear that the WTO's dispute-resolution process can ensure members' flexibility to pursue a balanced, worker-focused trade policy. Until then, the United States is better off resolving disputes with trading partners through negotiations—as it did from 1947, when the General Agreement on Tariffs and Trade was signed, until 1994, when the WTO was created—rather than under a made-up jurisprudence that undermines U.S. sovereignty and threatens American jobs.

In confronting these and other challenges, the path forward lies somewhere between the openness of the 1990s and the barriers of the 1930s. Navigating it successfully will require flexibility, pragmatism, a willingness to break with past practice, and the courage to take positions that sometimes are unpopular with international elites. The United States must avoid the stale, reductionist paradigm of free trade versus protectionism, which oversimplifies complex issues and stifles creative policymaking. This almost religious approach to trade policy also obscures the fact that trade is an issue on which it is possible to achieve broad, bipartisan consensus in an otherwise divided time. After all, the USMCA won the support of 90 percent of both the House and the Senate.

This powerful consensus should last, because it is rooted in deeply held values. Where trade is concerned, most Americans want the same thing: balanced outcomes that keep trade flows strong while ensuring that working people have access to steady, well-paying jobs. Neither old-school protectionism nor unbridled globalism will achieve that. Instead, as the United States confronts future trade challenges, it should chart a sensible middle course—one that, at long last, prizes the dignity of work.