Are American (and other) Industrial & Trade Policies Likely to Boost the Middle Class?

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Since the 1970s America has experienced non-inclusive growth

- **For five decades the American economy has excluded men without college degrees from the fruits of economic growth and in addition regional growth has been very uneven.**

- **These developments have been associated with a steady decline in the share of manufacturing in employment and output. Today only around 8 percent of Americans work in the sector.**

- **Many argue these trends reflect US trade performance and they blame flawed neoliberal US trade policies such as NAFTA and China's accession to the WTO**

There is Agreement that revitalizing Manufacturing is the remedy

- Biden and Trump agree that revitalizing Manufacturing is the key to restoring opportunities for workers without college degrees and help places that have been left behind.
- Their approaches have similarities and differences. Both protectionist. but Biden emphasized industrial policies & working with allies. Trump wants higher tariffs --even on US allies-- and deregulation.

My Recent Book , “Behind the Curve” Challenges These Views

I will outline my argument in These Comments

1. The book lays out a theory and presents overwhelming evidence that the employment share of manufacturing follows an inverted U as countries develop.

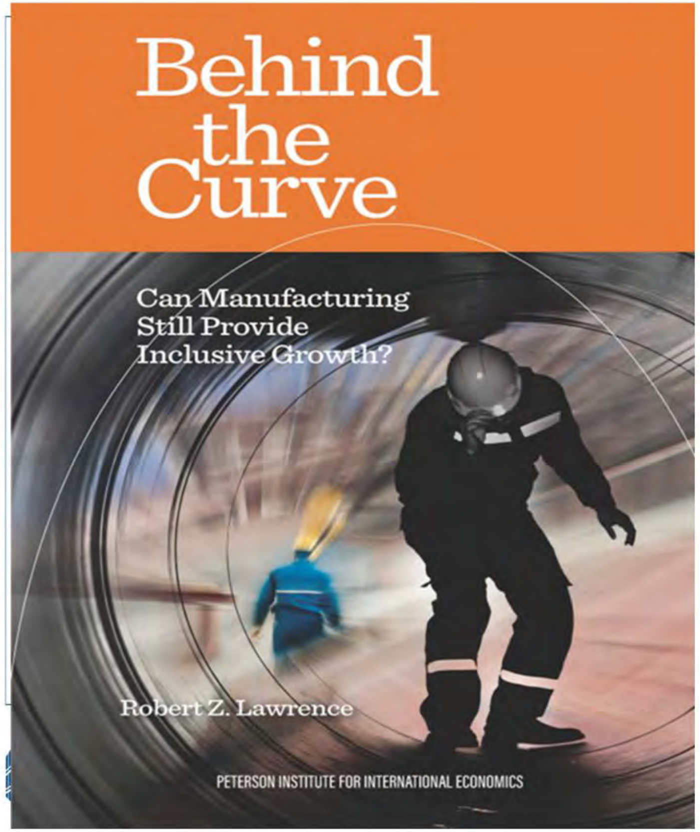
2. The share rises in the initial stages of development and after reaching a peak share, there is a steady decline regardless of whether the countries run trade deficits or surpluses in manufacturing.

3.. These declines are universal and reflect the interaction of the most basic drivers of structural change -----technological change, trade and demand, Thus the US experience is typical and not due to relatively recent trade policies.

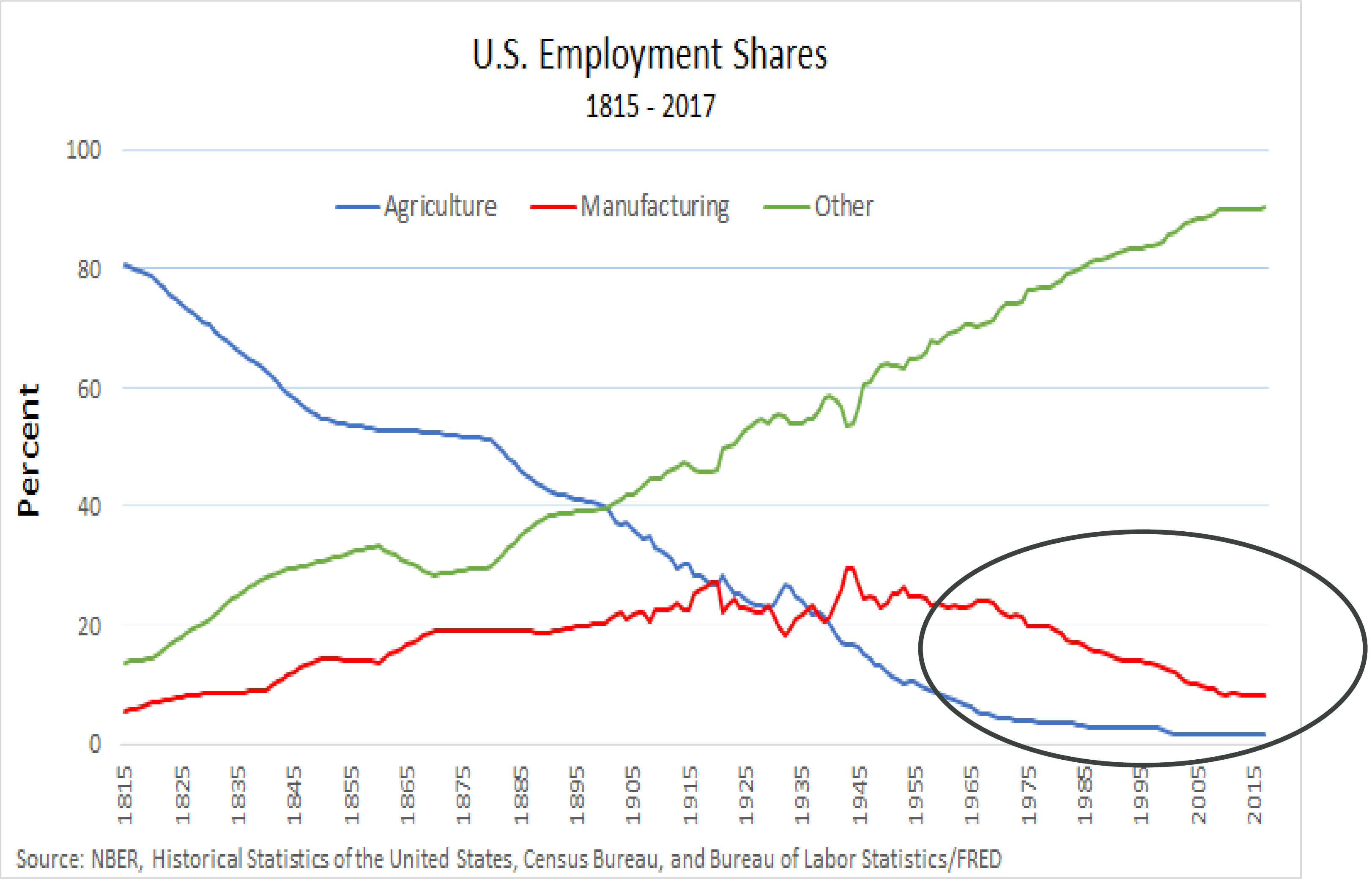
4. The declines have led to less inclusive growth.

5. But neither trade nor industrial countries are likely to change them. Indeed, they could actually make growth less inclusive.

6. Instead, much more broadly based policies are required.. Policies that focus on people and places rather than industries.

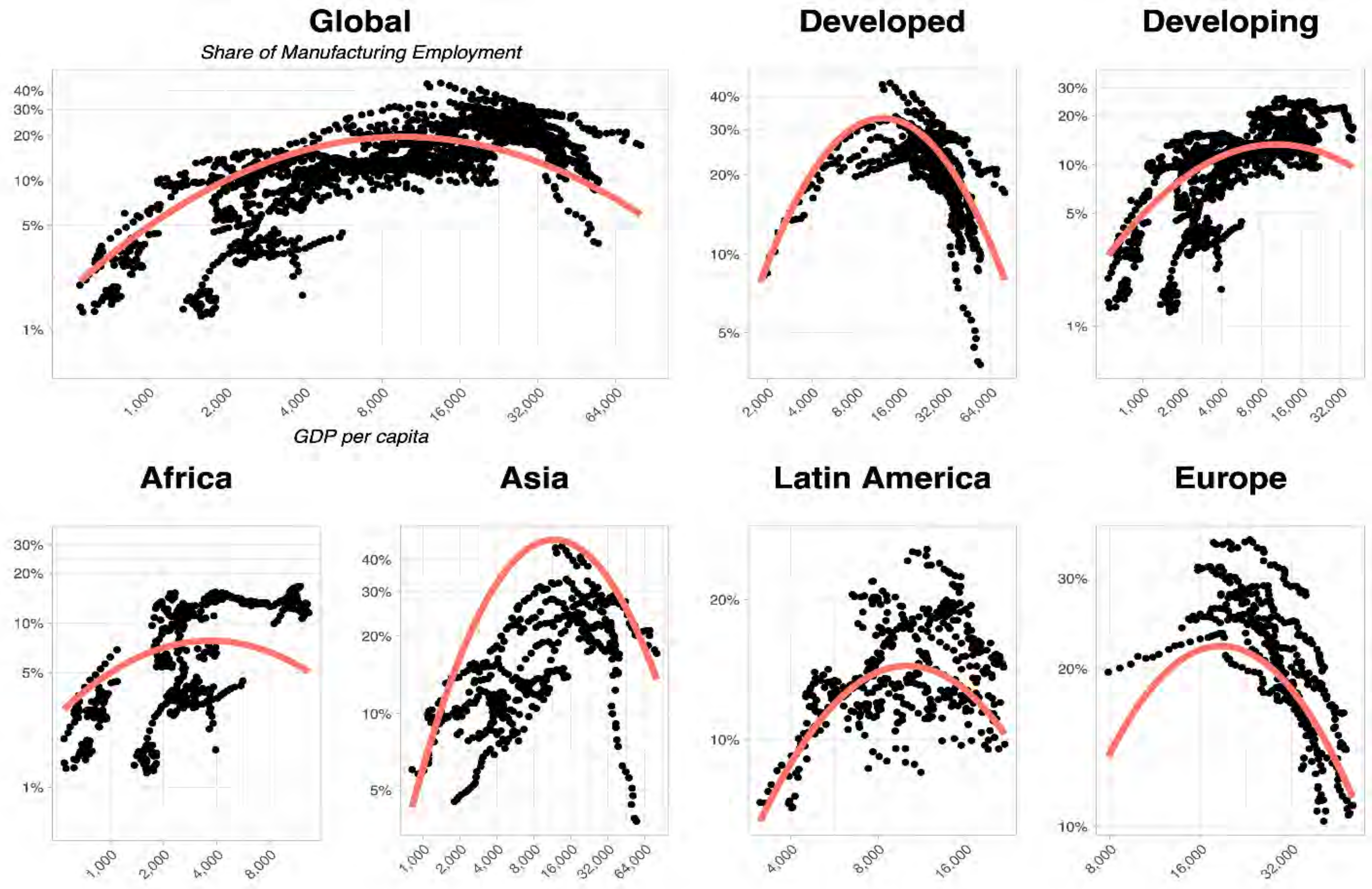


You Can see the Curve in US Manufacturing Employment Shares over two 2 Centuries.

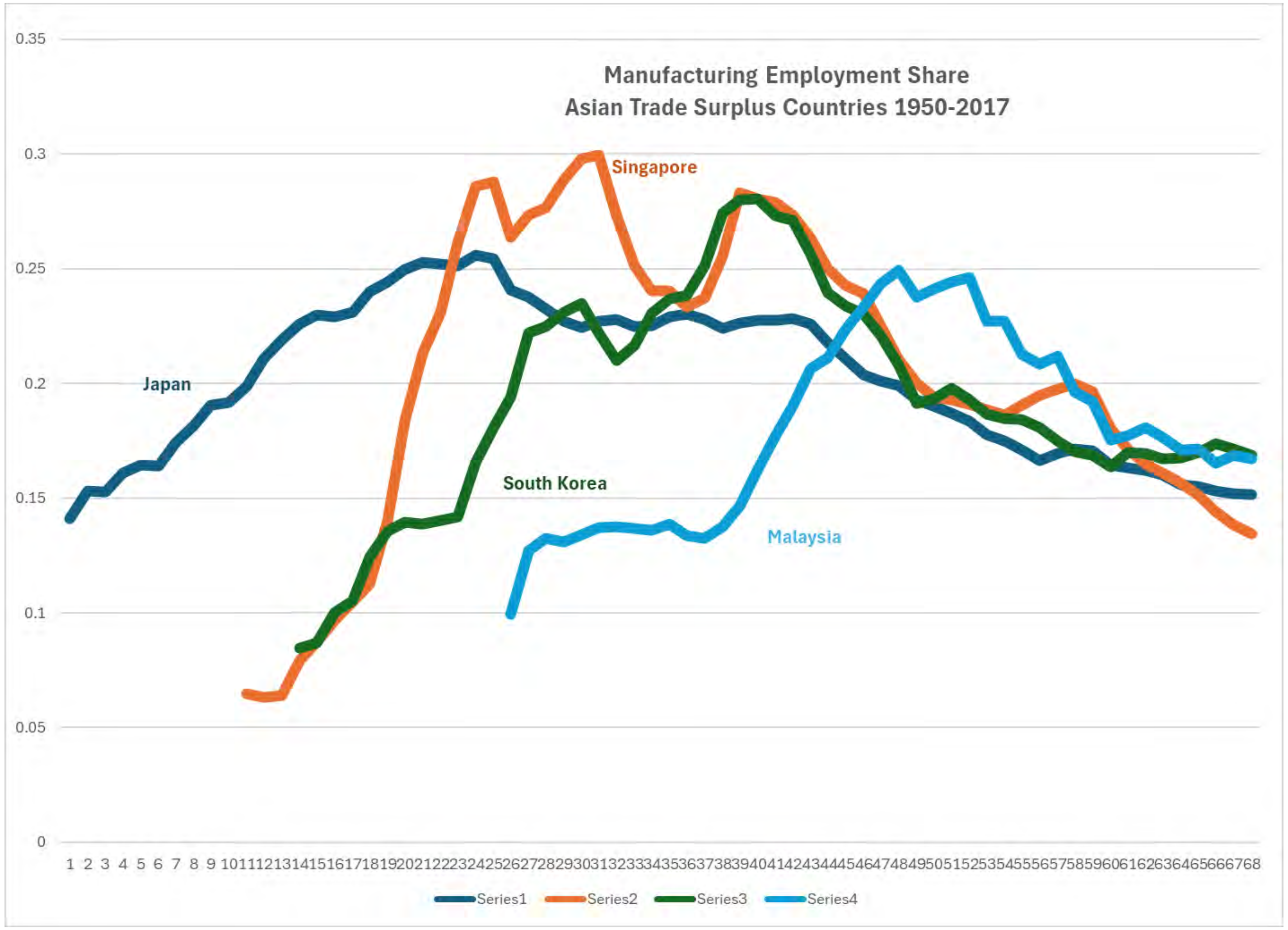


Note: the decline began in the 1960s When the US was relatively closed and long before adoption of recent trade policies or China's emergence.

You can see the curve in data in global and regional samples



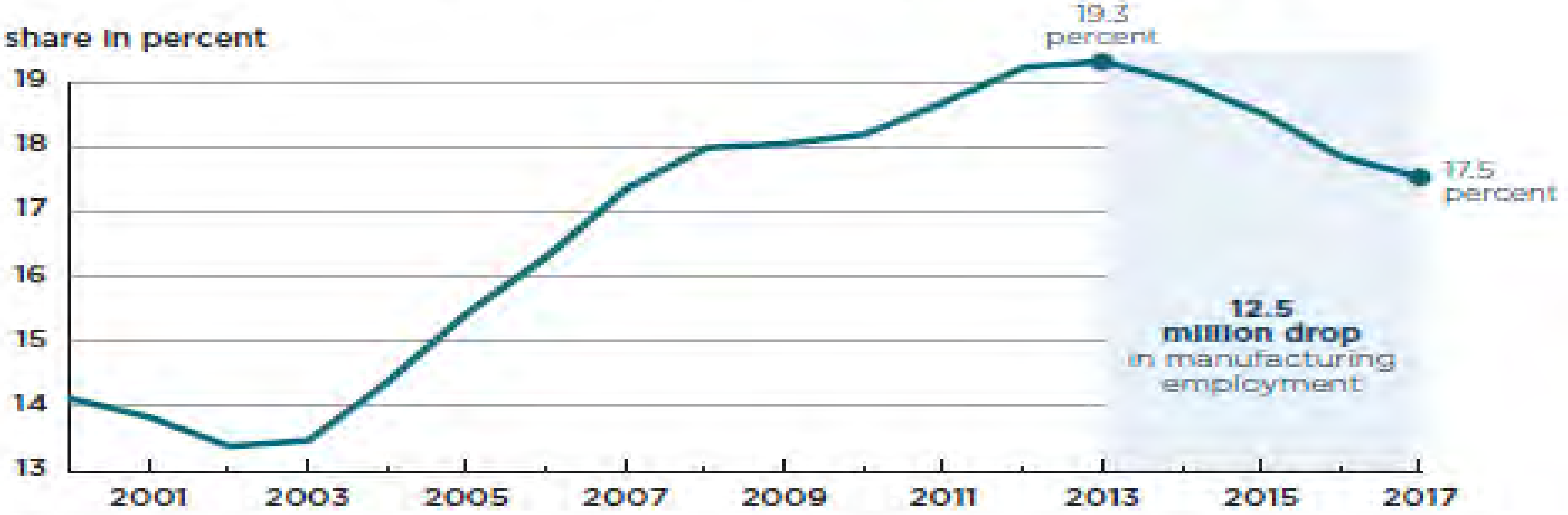
And in Asian Surplus Countries.



And Even China!

Figure 4

Share of manufacturing in total Chinese employment, 2000–17



Sources: Conference Board Total Economy Database (TED) and International Labor Comparisons (ILC) Databases.

Surplus and Deficit Countries: Very Similar Declines in Manufacturing Employment Shares once passed peak

Trade Balances and Manufacturing Employment Shares 1995-2011

Countries Ranked by Average Trade Balances in Manufacturing Value-Added as Share of GDP

	average 95-2011 Trade Balance Share of GDP	Change in Manufacturing Employment Share
average	**-0.31**	**-4.04**
surplus counry average	**3.41**	**-4.39**
deficit country average	**-3.16**	**-3.78**
top ten country average	**5.91**	**-3.80**
bottom ten country average	**-5.94**	**-3.29**

source: Tiva Data, ILO and Conference Board

Premature Deindustrialization: Curves Moving Downwards Over Time

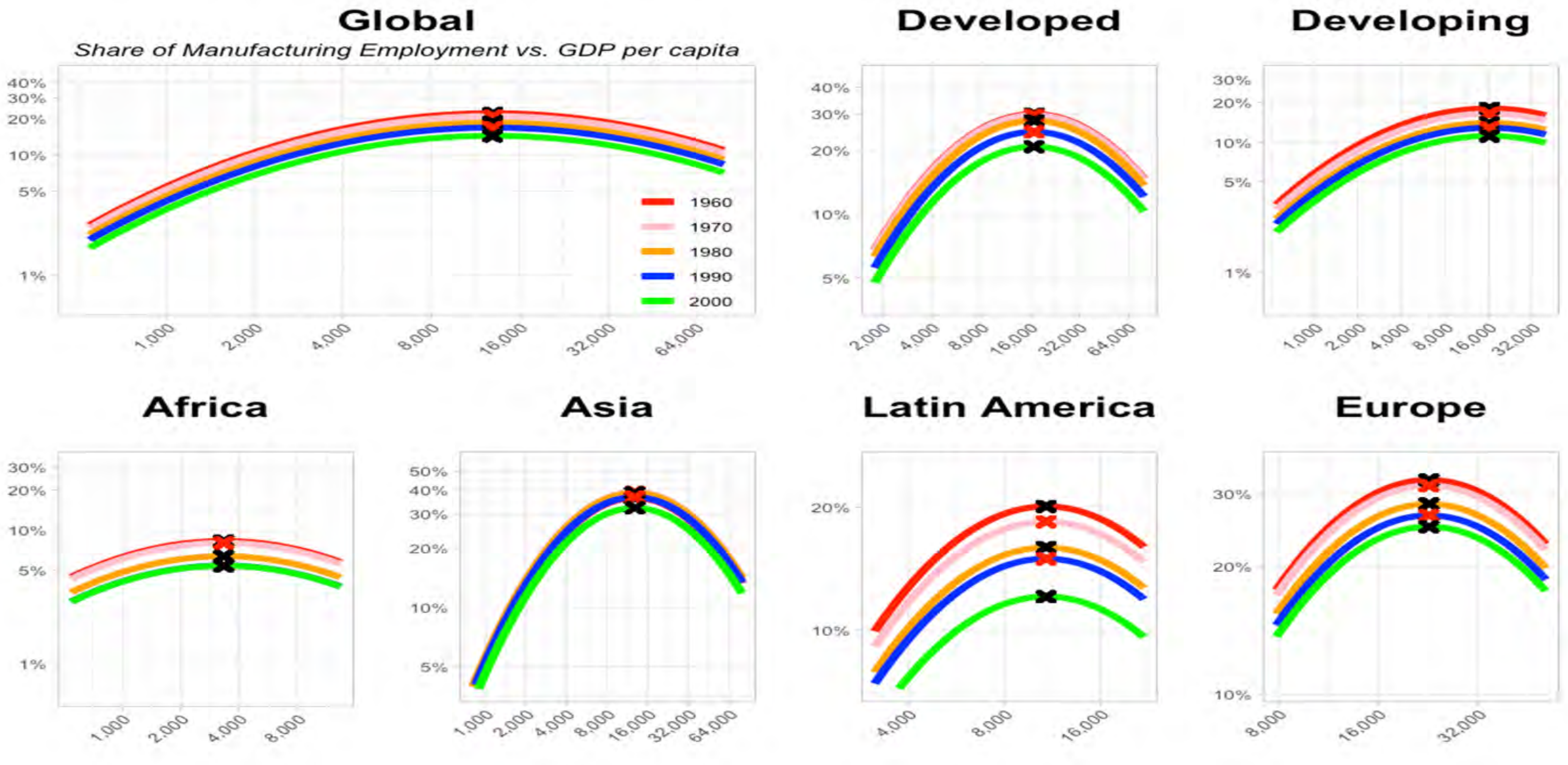
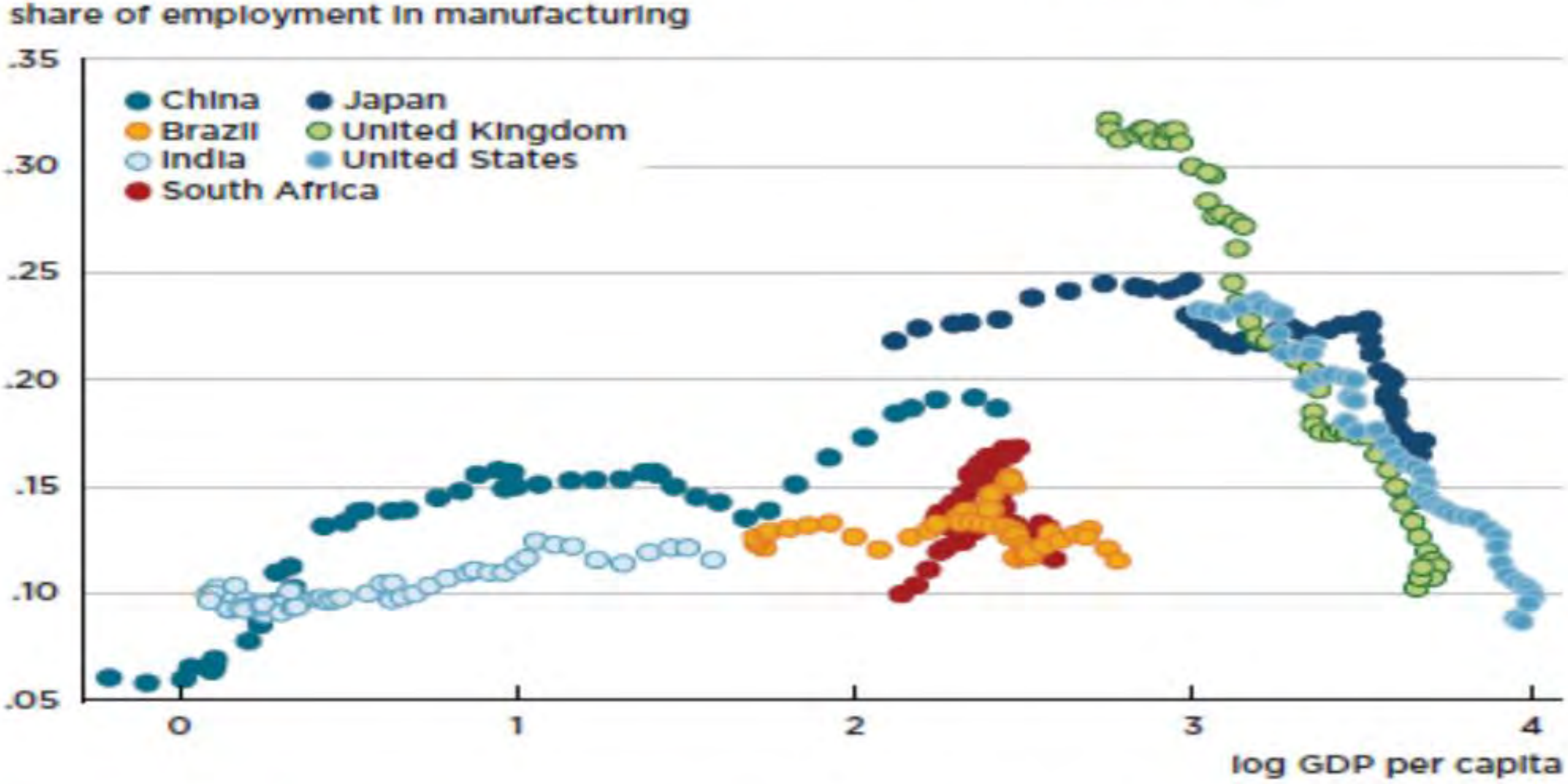


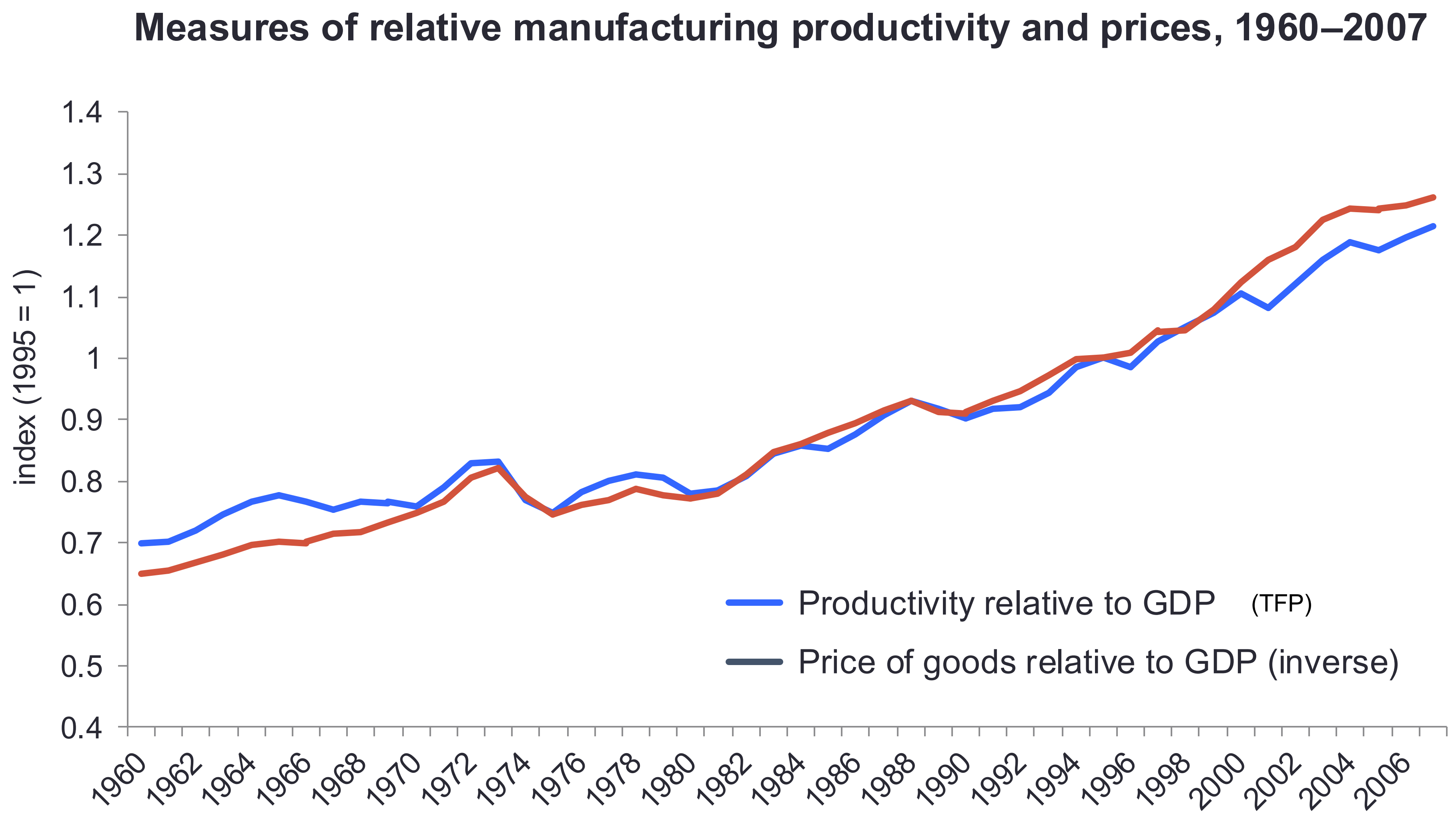
Figure 3

Manufacturing employment shares and per capita incomes in early industrializers (Japan, the United Kingdom, and the United States) and BRICS (Brazil, China, India, and South Africa), 1950–2011

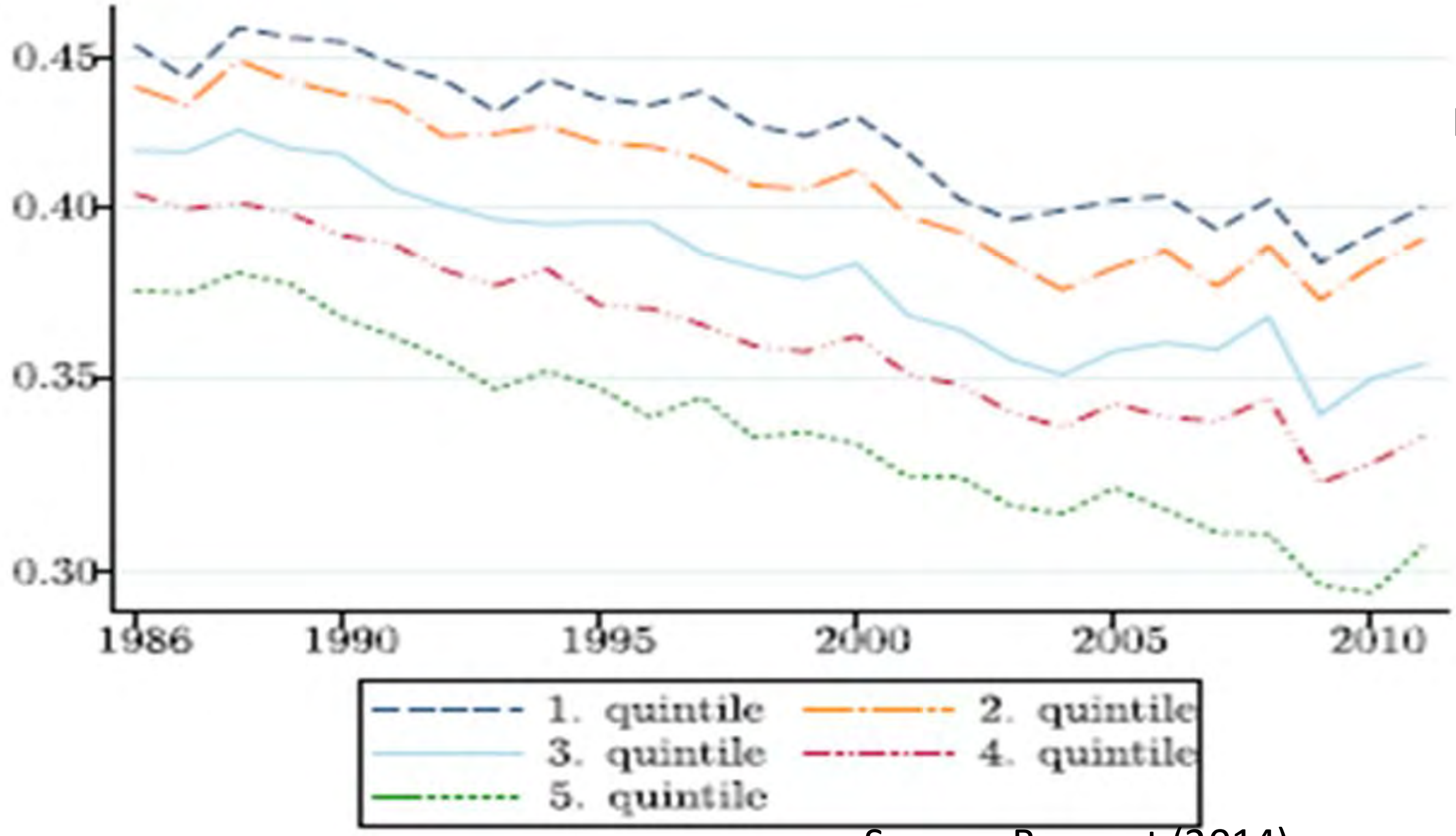


Sources: Groningen Growth and Development Centre (GGDC) 10-Sector Database for the share of manufacturing, and Penn World Tables for GDP per capita, which is purchasing power parity expressed in 2016 dollars.

Why the Hump? Sectors have Different Productivity Rates/Prices



Share of Consumption Spending on Goods by Income quintile: note declining for all groups



Poorest

Richest

Source: Boppart (2014)

Why Premature Deindustrialization?

Manufacturing Productivity Growth over Time means today poor Countries need fewer workers at each income level.

Also Lower Investment Shares and More Intangible Capital

Historically, manufacturing was a force for growth and inclusion:

1. Accounted for an important share of overall output and productivity growth for decades.
2. Enhanced inclusion of workers, especially those less-educated to join the middle class.
3. Included lagging regional economies in growth allowing them to converge to leading regions by attracting manufacturing and new migrants
4. Strengthened the role of nation-wide unions that gave worker greater influence over benefits and other policies.

But Manufacturing's role has changed

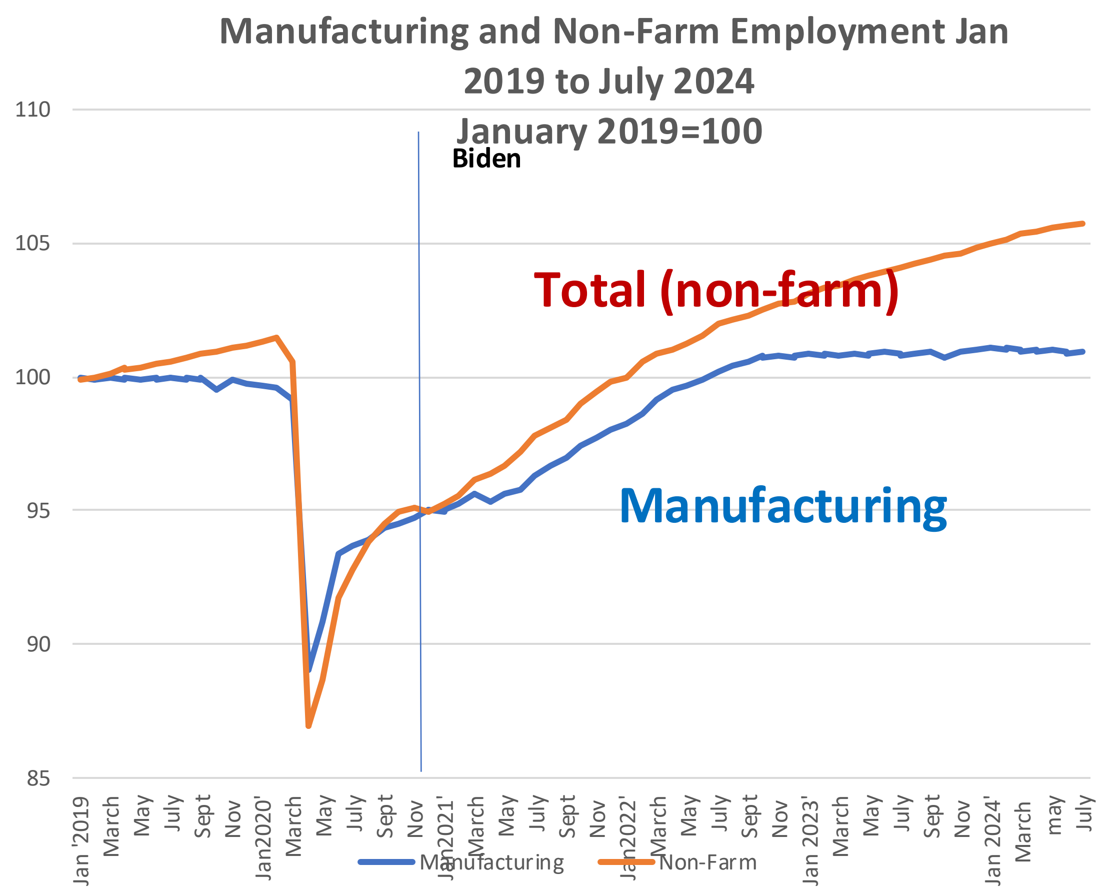
1. **The US employment share in manufacturing has shrunk steadily since the 1970s and is today too small to provide significant shares of employment and growth**

2. **1960-69: 30 percent of US growth & 30-27% of non-farm employment**
3. **2010-2019: 10 percent of US growth & 8.7 % of nonfarm employment**

1. **Convergence between richer and poorer regions has been reversed, and the US and other nations are now divided into left behind places and super star cities centered on non-manufacturing activities.**
2. **Moreover, because of technological change, these fewer opportunities are increasingly being given to more educated workers, and the share of investment in manufacturing is now more in intangibles such as software and intellectual property rather than plants and equipment. "Tesla a computer on wheels."**

Manufacturing under Biden: No Renaisance

- **Biden policies emphasize “making it in America.” Lots of talk of an American Renaissance in manufacturing**
- **Yet in aggregate US manufacturing employment and output have grown relatively slower than employment and GDP.**
- **After Covid recovery manufacturing employment stagnated.**
- **And BLS projects absolute declines in manufacturing employment and the share of all employed and self-employed to fall from 7.8 to 7.4 percent. By 2032.**
- **And the manufacturing programs are unlikely to increased the share of manufacturing employment by more than a few percent. And similarly balancing US trade would not do much**



But Jan2020 to October 2023 were Special because of Covid Rebound

2018-2023 Manufacturing Output Share Declining!

Declining Share of Manufacturing Employment

SO: Will Trade and Industrial policies promote inclusive Growth?

- **Both developed and developing countries are emphasizing the need for government industrial policies and trade protection in their policies.**
  - **These policies may meet specific goals, digitization, decarbonization, supply-chain resilience national security, but the claims of their ability to restore more inclusive growth are based on a flawed understanding of the consequences of the policies.**
  - **Their aggregate effects on manufacturing employment are too small (and declining)**
  - **Even with balanced manufacturing trade US manufacturing employment share would increase by just a few percent.**
  - **Even if they succeed in increasing manufacturing employment, they are skill-biased so growth could be less inclusive!**