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The past few years have been unkind to the prophets of globalization, who spent the turn of the 21st century promising that global economic integration would spread liberal democracy, too. But while the international scene plays host to the most dramatic catastrophes, a full accounting of globalization’s failures must also leave ample room for a domestic tally. That side of the ledger features a steady trickle of theories proven wrong, investments shelved, and jobs never created. Summed over two decades, they amount to a flood of economic disappointment that has transformed the American landscape for the worse.

The problem is not the economist’s oft-repeated disclaimer that trade creates both winners and losers. The problem is that the promised benefits never materialized, while costs dismissed as implausible have proved all too real. Of course, not every problem in the American economy has a connection to globalization, and in few cases is globalization solely to blame. But the era of globalization has coincided closely enough with the onset of precisely those problems that a clear-eyed analyst might have predicted and delivered outcomes sufficiently contrary to the ones its ideologues envisioned, that any jury would return a verdict of guilty beyond a reasonable doubt.

**Assessing the Results of the Globalization Experiment**
“We need to teach [students] that trade deficits are self-correcting,” wrote Professor Paul Krugman in 1993. Perhaps that seemed sensible in 1993, when American imports had exceeded exports by only about $1 trillion over the preceding three decades. By 2000, the accumulated trade deficits exceeded $2 trillion; by 2010, $8 trillion. Year after year, America imported hundreds of billions of dollars more in goods and services than it exported, which meant it was instead paying with financial assets—claims against the nation’s prosperity that will burden future generations.

“China will compete for some low-wage jobs with Americans. And their market will provide jobs for higher wage, more skilled people. And that’s a bargain for us,” Nobel laureate Robert Solow assured Americans in 2000 from the podium in the White House briefing room. The economic theory of “comparative advantage” supposedly meant that we would import more low-end goods from abroad while gaining new markets for our high-tech exports.

But while we once made Advanced Technology Products for the rest of the world, that advantage has collapsed—from a trade surplus of nearly $60 billion (2020 dollars) in 1992 to a deficit of $191 billion in 2020.
With imports skyrocketing and domestic manufacturing falling behind, U.S. industrial output flatlined. Globalization enthusiasts like to say that manufacturing hasn’t actually fallen, but, even if that were true, the shift in trend has been catastrophic. From 1980 to 2000, output increased by 96%. From 2000 to 2020 (pre-pandemic), it increased only 5%. And that includes the notoriously mismeasured output in semiconductors and electronics. Put those aside, and output in the 21st century is down about 10%.

We Managed to Reduce Our Industrial Output

Source: Board of Governors of the U.S. Federal Reserve System
The obvious consequence of stalled manufacturing output has been a plunge in jobs. Employment in the sector held steady around 12 to 14 million production jobs from the 1950s through the 1990s and then, beginning in the 2000s, collapsed—down 35% in one decade.

The Sudden Collapse in Manufacturing Employment

*Production and nonsupervisory employees in the U.S. manufacturing sector (millions)*

Some analysts have attempted to blame accelerating automation for the collapse in manufacturing employment. The only problem: this never happened. Manufacturing productivity decelerated in the 2000s from the 1990s (which experienced no job loss). The 2010s saw the unprecedented situation of productivity going negative, for an unthinkable six consecutive years. To produce the same output, American factories needed 5% more hours of labor in 2019 than in 2013.
America has fallen behind not only in advanced technology products, but also advanced manufacturing processes. The World Economic Forum hosts a network of manufacturing “lighthouses” that “show[] leadership in using Fourth Industrial Revolution technologies to transform factories, value chains and business models, for compelling financial and operational returns.” Fewer than 15% of lighthouses are in the United States—Europe has nearly three times as many, while Asia has more than four times as many.
No Longer at the Cutting Edge

Sites identified by World Economic Forum as “Lighthouses” for advanced manufacturing

Industrial atrophy has been just one leading indicator of a broader economic malaise driven by declining investment. From 1980 to the end of 2001, when China joined the WTO, U.S. net domestic business investment averaged 4.3% of GDP. Within a year, that figure had fallen 4%, and the next year it fell below 3%. From 2003 through the first quarter of 2020, the average was 2.6%.

Domestic Business Investment Has Fallen

U.S. net domestic business investment as % of GDP (trailing three years)

Source: U.S. Bureau of Economic Analysis
A popular canard holds that globalization allows America to “attract investment” from around the world. But that’s not really happening. So-called “Foreign Direct Investment” turns out to encompass scarcely any real-world investment in building U.S. operations. Rather it consists almost entirely of acquisitions—foreign investors buying up existing domestic assets with the dollars their nations have earned from selling us cheap stuff.

Foreign Not-So-Direct Investment

With innovation and investment both in decline, economic growth stalled, too. The core economic premise of globalization has always been that it would supercharge growth, generating broad-based prosperity by expanding the “economic pie.” So, it is awkward, to say the least, that globalization has coincided with America’s lowest economic growth in generations.
Disappearing jobs, declining investment, and stagnating productivity have real consequences for workers, their families, and their communities. The decline in manufacturing employment was supposed to be offset by rising demand in dynamic industries offering better jobs, but that never happened. As Jeff Ferry of the Coalition for a Prosperous America has shown, the sectors that saw growth in production-level jobs over the past two decades have tended to be ones where the jobs pay less than manufacturing jobs did.

The Economy’s New Jobs Are Worse Than the Old Ones

More broadly, the idea that the 21st-century economy’s new and better jobs simply require more education has proven wrong as well. As Oren Cass showed in a recent American Compass report, The False Promise of Good Jobs, the U.S. labor market has not been generating plentiful new jobs requiring college degrees, for which we just need to produce more college graduates. To the contrary, the labor market has added college graduates twice as fast as jobs requiring their degrees. The plentiful jobs are ones that do not require degrees, and that pay no more than they used to.
As job opportunities have worsened, so too has the picture of prime-age men (ages 25 to 54) who are working at all. Shifts of a few percentage points can seem insignificant from afar, but they represent the difference between an economic boom and a recession. In the much-celebrated hot economy of 2019, the share of prime-age men absent from the labor force, unemployed, or working part-time was actually higher than in the recession of 1992.
Even the Booms Look Like Recessions
Share of men, ages 25 to 54, not working full-time

![Bar chart showing employment status for 1992 (business-cycle low) and 2019 (business-cycle high).](chart)

Source: U.S. Bureau of Labor Statistics • Note: Value for each year calculated as average for the 12 months.

What economic progress has been occurring has also been sharply concentrated geographically. The Economic Innovation Group’s Distressed Communities Index shows that while the 20% of zip codes it defines as most “Prosperous” have experienced healthy employment growth in recent decades, the rest of the nation has seen almost none.

Little Job Growth Occurred Outside the Most Prosperous Enclaves
Cumulative increase in employment, 2000 to 2018

![Line chart showing cumulative growth in employment from 2000 to 2018.](chart)

Source: Economic Innovation Group, Distressed Communities Index (2020)
This has also meant that the long-term trend of regional “convergence” in the U.S. economy has reversed itself. For decades, a remarkably tight, inverse correlation held between a state’s income level and income growth; the poorest states were growing the fastest and catching up with richer ones. That’s no longer the case.

Instead, consistent with the globalization model of growth, high earning and tax-paying Americans are increasingly “compensating” everyone else through government transfer payments. In most counties, residents now receive more than 30 cents in transfer payments for every dollar of earned income. It the most dependent third of counties, that figure is approaching 50 cents.
In Most Counties, At Least 30 Cents of Government Benefits Per Dollar of Earned Income

Transfer payments per dollar of earned personal income

With industrial atrophy, disappearing jobs, declining labor force participation, and increasing dependence on transfers has come a catastrophic increase in substance abuse and what Princeton University’s Anne Case and Angus Deaton have termed “Deaths of Despair.” Along with rising suicides and alcohol-related mortality, the opioid epidemic has sent death rates for middle-aged Americans skyrocketing, so much so that life expectancy began to fall.

Source: American Compass analysis of U.S. Bureau of Economic Analysis data
Deaths of Despair Led to Unprecedented Declines in Life Expectancy

Crude death rate per 100,000

<table>
<thead>
<tr>
<th>Drugs</th>
<th>Alcohol and Suicide</th>
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All Americans

Age 45-54

Source: CDC Wonder Database • Note: Causes of death classified as "Deaths of Despair" drawn from U.S. Congress Joint Economic Committee, "Long-Term Trends in Deaths of Despair" (September 2019)

CONCLUSION

At the conclusion of the Cold War, economists advanced a powerful hypothesis: that eliminating obstacles to the free flow of goods and services, people, and capital around the world would drive the next era of progress and prosperity. At least for Americans, the hypothesis has proven false. Some continue to believe it, but for them it is an article of fundamentalist faith, not an empirical argument that should be allowed to guide policy debates. ■

An electronic version of this article with additional footnotes and sourcing is available at www.americancompass.org.
Our Mission
To restore an economic consensus that emphasizes the importance of family, community, and industry to the nation’s liberty and prosperity:

REORIENTING POLITICAL FOCUS from growth for its own sake to widely shared economic development that sustains vital social institutions.

SETTING A COURSE for a country in which families can achieve self-sufficiency, contribute productively to their communities, and prepare the next generation for the same.

HELPING POLICYMAKERS NAVIGATE the limitations that markets and government each face in promoting the general welfare and the nation’s security.

Our Activities

AFFILIATION. Providing opportunities for people who share its mission to build relationships, collaborate, and communicate their views to the broader political community.

DELIBERATION. Supporting research and discussion that advances understanding of economic and social conditions and tradeoffs through study of history, analysis of data, elaboration of theory, and development of policy proposals.

ENGAGEMENT. Initiating and facilitating public debate to challenge existing orthodoxy, confront the best arguments of its defenders, and force scrutiny of unexamined assumptions and unconsidered consequences.

Our Principles
American Compass strives to embody the principles and practices of a healthy democratic polity, combining intellectual combat with personal civility.
We welcome converts to our vision and value disagreement amongst our members.
We work toward a version of American politics that remains inevitably partisan and contentious but operates from a common commitment to reinforcing the foundations of a healthy society.

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