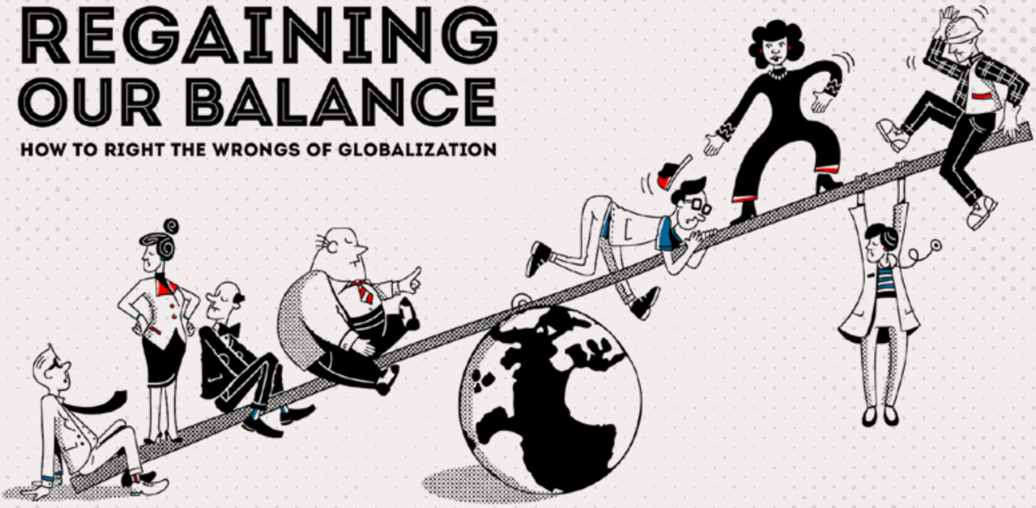
AMERICAN COMPASS
READER

REGAINING OUR BALANCE

HOW TO RIGHT THE WRONGS OF GLOBALIZATION



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AMERICAN COMPASS

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.

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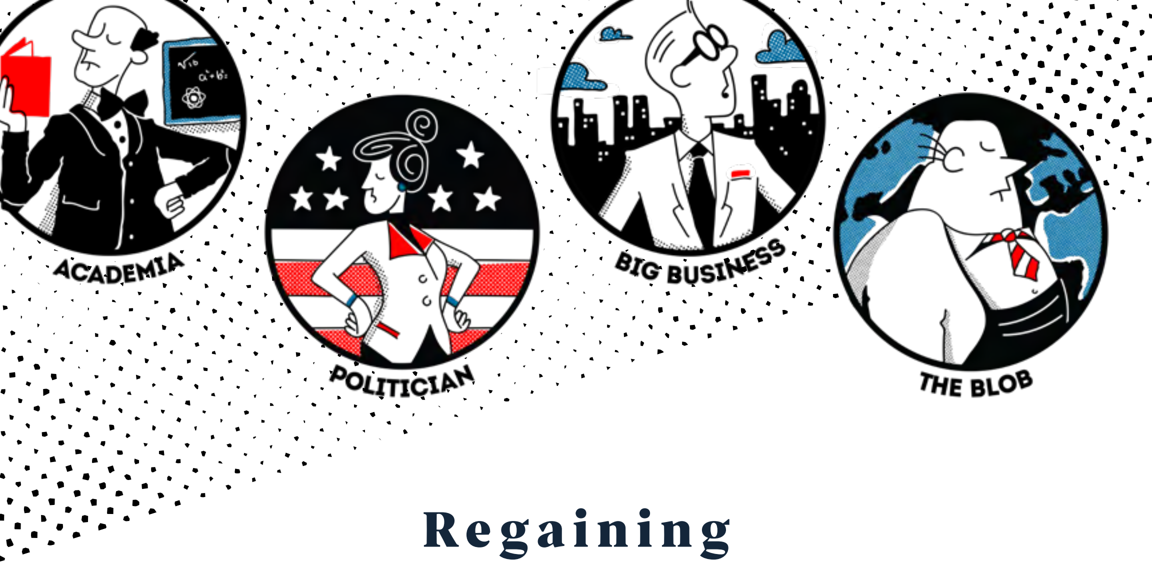

Regaining Our Balance

In the three decades since the Cold War's end, politicians and economists have been conducting an unprecedented experiment on humankind. Their hypothesis is that the free flow of goods, capital, and people across borders will deliver liberty and prosperity worldwide. Globalization, according to this theory, which they present as fact, is an unstoppable force that accelerates economic growth, spreads liberal democracy, and lifts the world's poor. No rational basis could exist, according to the bipartisan consensus, for thinking otherwise.

In America, the experiment has failed and sent the nation reeling. Regaining our balance requires an understanding of how and why the experiment failed, acknowledgment of that failure by the theory's proponents, and a new approach that builds upon the lessons learned. This collection tackles each of those challenges. Introductory essays revisit the economic theory on which globalization was built and the ideology that promoted its embrace. Research traces the arguments made and the outcomes produced. And a new menu of options offers policymakers the framework and tools they will need to move forward.

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A journey to the center of the neoliberal dogma

Searching for Capitalism in the Wreckage of Globalization

OREN CASS

In the fall of 2001, as the World Trade Organization prepared to welcome China, I was completing my introductory college economics course. I had mastered the basics of supply and demand, opportunity cost, indifference curves, and comparative advantage. A few days before China's formal accession, I composed my first policy memo on the merits of free trade.

I still have the paper, written in the confident and unquestioning tone that my freshman self thought appropriate for a practitioner of the economic sciences, though with hindsight it seems more the tone of a recent convert to a fundamentalist sect, which I suppose I was. "There is no question," I began, "that free international trade increases a society's economic surplus."

I dismissed concern for "a short-term loss in jobs" because "those labor resources can be quickly shifted to the production of goods to be consumed domestically (total domestic surplus has increased), or to goods that can be exported to now-wealthier trading partners." I averred that, "damage to a given industry is more than compensated for by advancements elsewhere." I even provided a parenthetical citation: "(Krugman)."

If memory serves, I got an A. For demonstrating mastery of the course material, this was fair. Held to a standard of correctness, though, I surely deserved an F.

Economic reality was in the process of disproving decades of economic theory. America was about to lose millions of jobs to the "China Shock" of cheap imports flooding the domestic market; those labor resources could *not* quickly shift to other jobs, though many did shift onto ballooning disability rolls or slide into drug addiction. Production did not shift quickly to other goods for domestic consumption: industrial production rose 94% from 1980 to 2000, but only

> ***What are we going to do about China? It was not a question one asked in polite company back then, for fear of being revealed as an economic simpleton or, worse, a protectionist.***

7% from 2000 to 2020; excluding the notoriously mismeasured production of semiconductors, American industrial output in the 21st century has declined by 10%. Nor did it shift to other goods for export: even in advanced technology products, those two decades saw a healthy American trade surplus collapse into a yawning deficit. (These data use the 2020 rate of output pre-pandemic.)

Such statistics were the trees in a forest of economic stagnation. Globalization was supposed to supercharge growth, which instead slowed. Productivity growth stalled, and manufacturing productivity logged six straight years of *decline*. Business investment fell to the lowest share of GDP on record and financial markets withdrew trillions from the productive economy. America lost its ability to make the world's fastest computer chips or jetliners that would safely fly. Rather than transition to well-paying "jobs of the future," America's labor market produced jobs requiring a college degree only half as fast as it added college graduates. For the vast majority of Americans, working in jobs that did not require a degree, wages stagnated.

I spent the 2000s blissfully unaware of all this, dutifully completing more economics courses, becoming a management consultant, and then attending law school, as one does. But in the summer of 2011, I went to work for presidential candidate Mitt Romney and received the assignment to prepare his briefing on trade policy.

I still have the PowerPoint presentation, with its crisply outlined free-trade agenda, its lead message that "opening new markets is crucial to economic growth and job creation, and the WTO is the best hope for efficiently opening markets around the world," and its highlighted bottom line: "Give workers a growing economy, and the tools to participate in it." Romney's response, after reviewing the materials, remains vivid in my mind: "That's fine. But what are we going to do about China?"

What are we going to do about China? It was not a question one asked in polite company back then, for fear of being revealed as an economic simpleton or, worse, a *protectionist*. Despite this, or perhaps because of it, the question fascinated me. Determined to find my boss an answer, I soon encountered two challenges.

First, the right-of-center's leading free-market economists and trade experts had no interest in the question, let alone interesting answers. Dissidents found little purchase in the debate. Politicians like Patrick Buchanan and Ross Perot were mocked as charlatans—or worse. Serious analysts like Dani Rodrik, a Harvard University political economist;

Clyde Prestowitz, a trade official from presidential administrations of both parties; and Robert Lighthizer, a trade lawyer and former deputy U.S. Trade Representative under President Reagan, were considered heretics—intellectual curiosities at best. The labor movement's concerns were dismissed as special interest lobbying, and broader critiques from the left were presumed to be anti-capitalist.

Second, the problem was much bigger than just China. The entire edifice of globalization—the case for the unfettered flow of goods, people, and capital across borders—was built upon the firm faith that more of these things was always better. This free-trade dogma possessed a compelling internal logic, but it insisted explicitly on unconditionality. Paul Krugman provided a clear statement of the principle in 1997: "The economist's case for free trade is essentially a unilateral case. A country serves its own interests by pursuing free trade regardless of what other countries may do."

According to this model, as economists had been taught and now themselves taught, free trade was and would always be America's optimal strategy. If China wanted to steal our intellectual property, manipulate its currency, subsidize state-owned enterprises, and sell us the results for cheap, *they* were the suckers and we should just enjoy all the stuff. If China took back our financial assets instead of our exports, accepting IOUs in return for sending us products we might once have made ourselves, all the better. Excoriating the strong stance Romney ultimately took on trade, the *Wall Street Journal*'s editorial board concluded that what would truly be in America's "national interest," rather than confronting Beijing's mercantilism, was helping the Chinese Communist Party "liberalize its financial system and allow the free flow of capital."

The model could not countenance an exception for China, which meant that if the model failed there, then it had failed altogether. The absolute confidence of the economists would be foolhardy; policymakers would have to start asking under what conditions globalization might promote prosperity and they would need tools to use when those conditions were not met. The more I dug, the more clearly I saw the foundation's rot, and the more obvious it became that the edifice was doomed to crumble no matter how loudly economists attested to its strength.

But why was the model wrong? Hadn't Adam Smith shown that the invisible hand would ensure that people pursuing their self-interest also advanced the public interest? Wasn't this the premise of capitalism? Policymakers would need to answer those questions if they hoped to address the problem rather than just lament it, or make it worse. Over the past decade, I've been trying to find my own answers.

My conclusion is that we have gotten capitalism wrong and that globalization, far from its logical endpoint, is its antithesis. Capitalism does not work because people with capital, left to their own devices to maximize profits, will behave in ways that deliver widespread prosperity. That's nonsensical and has not a shred of evidence to support it. Nor is "capitalism" a synonym for "economic freedom," notwithstanding the canon of market fundamentalism. Capitalism works because, under a specific set of conditions in a well-governed market, capitalists need increasingly productive workers to achieve increasing profits, and workers need access to capital to achieve increasing wages, and in their mutual dependence both find it in their interest to act in ways that deliver good outcomes for themselves and for consumers as well. Capitalism locks everyone in a room together and encourages them to find a way out.

This system of mutual dependence between capital and labor, not mere "economic freedom," is what Adam Smith so ably described. Globalization destroys it, instead

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urging the owners of mobile capital to forsake the interests of their fellow citizens and search for higher profits through labor arbitrage abroad. A democratic republic's vast working and middle classes will rightly reject such an arrangement, forcing elites to choose between restoring capitalism by constraining capital or entrenching their own economic prerogatives by subordinating the democratic process. That's as good a description as any of the precipice at which America now stands.

The Invisible Hand Disappears

Given the extraordinary degree of confidence that economists and policymakers express about the wisdom of globalization, I had expected to encounter a compelling and well-theorized case in its favor. Instead, I found a collective, jingoistic misunderstanding of the 200-year-old writings of Adam Smith and David

Ricardo. Of course, those great political economists had many insights that remain relevant today. But their theories were being applied out of context, in ways they never could have imagined, and without concern for the specific warnings they did provide. The case for globalization wallowed in market fundamentalism because no better work had been done.

A 2007 report from *The Economist* summarized well the state of its eponymous profession:

> Globalisation is a big word but an old idea, most economists will say, with a jaded air. The phenomenon has kept the profession's number-crunchers busy, counting the spoils and how they are divided. But it has left the blackboard theorists with relatively little to do. They are confident their traditional models of trade can handle it, even in its latest manifestations.

To illustrate the point, the magazine quoted the conclusion of Greg Mankiw, Harvard University economist and recent chairman of President George W. Bush's Council of Economic Advisers (CEA), that "services offshoring fits comfortably within the intellectual framework of comparative advantage built on the insights of Adam Smith and David Ricardo."

This mode of thought was pervasive and bipartisan. "In the last decade of the 20th century," Krugman advised in 1993, "the essential things to teach students are still the insights of Hume [a contemporary of Smith's] and Ricardo. That is, we need to teach them that trade deficits are self-correcting … . If we can teach undergraduates to wince when they hear someone talk about 'competitiveness,' we will have done our nation a great service."

The thinking persists. Javier Solana, once the European Union's foreign policy chief and now a distinguished fellow at the Brookings Institution, defended globalization in 2020 with the observation that, "Adam Smith's axioms about specialization, and David Ricardo's regarding comparative advantage, are as true today as they were 200 years ago." Earlier this year, Glenn Hubbard, dean emeritus at Columbia Business School and Mankiw's predecessor at CEA, published a book marketed by Yale University Press as "taking Adam Smith's logic to Youngstown, Ohio" to "promote[] the benefits of an open economy." *National Review* published an essay adapted from the book under the title, "The Enduring Logic of *The Wealth of Nations*."

While Smith and Ricardo might be flattered that their work has attained the status of scripture—never modernized, always obeyed—they would certainly be aghast.

While Smith and Ricardo might be flattered that their work has attained the status of scripture—never modernized, always obeyed—they would certainly be aghast. Both were brilliant analysts who understood that economic principles were contingent on social conditions, and who carefully enumerated the conditions relevant to their analysis. Indeed, seeing as they were not writing about and could not possibly have comprehended 21st-century globalization, it is a particular testament to their intellect that they nonetheless anticipated and disclaimed a feature of our modern economy: the free flow of capital. Their theories applied, they both insisted, only so long as a nation's capitalists invested within its own borders.

Start with Smith and his famous "invisible hand," Exhibit A in the classic account of capitalism. The metaphor stands today for the idea that market forces ensure people pursuing their own profit behave in ways that benefit society broadly. It is "the hand of free commerce that brings magic order and harmony to our lives," in the words of libertarian author Amity Shlaes.

That's not what Smith meant. For all its quotation, the phrase appears only once in the two volumes of *The Wealth of Nations* (1776), in a sentence that begins, "By preferring the support of domestic to that of foreign industry…":

> By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention.

They don't teach all that in Economics 101. To the contrary, as Jonathan Schlefer, longtime editor of MIT's *Technology Review* once exposed, the leading economics textbook of the 20th century edited most of it out. In Economics, Nobel laureates Paul Samuelson and William Nordhaus reprinted the quote as, "He intends only his own security, only his own gain. And he is in this led by an invisible hand to promote an end which was no part of his intention." Students are not even given an ellipse.

Smith's actual theory assigned enormous caveats to the idea that capitalists pursuing their own interests will behave in ways beneficial to the broader society. Building to his description of an invisible hand, he observed that, "every individual endeavours to employ his capital as near home as possible as he can, and consequently *as much as he can in the support of domestic industry*," in part because, "he can know better the character and situation of the persons whom he trusts, and if he should happen to be deceived, he knows better the laws of the country from which he must seek redress." Smith continued, "Upon equal, or only nearly equal profits, therefore, every individual naturally inclines to employ his capital in the manner in which it is likely to *afford the greatest support to domestic industry*, and to give revenue and *employment to the greatest number of people of his own country*." Immediately following the hand's debut, he specifies that the businessman can best determine "the *species of domestic industry* which his capital can employ" (all emphasis added).

Neither "magic" nor inevitable, Smith's argument for an alignment of self-interest with the public interest is a logical deduction built upon clearly stated preconditions. If a capitalist wishes to deploy his capital domestically, and if the domestic investment that will generate the most profit for him is also the one that will create the most value and employ the most people in his country, *then* we will have a well-functioning capitalist system.

David Ricardo managed to be even more explicit. Modern economists cite fondly the seminal example in his *Principles of Political Economy and Taxation* (1817), which described England trading cloth to Portugal for wine. The trade will be beneficial to both sides, Ricardo showed, even if Portugal can produce both cloth and wine more cheaply. This idea of "comparative advantage," suggested Paul Samuelson (he of the mangled Smith quotation), is the only principle of the social sciences that is both true and nontrivial.

But like Smith, Ricardo saw that his model required capital to be constrained. His example only works, he emphasized in the very next paragraph, because of "the difficulty with which capital moves from one country to another." Where Portugal is the low-cost producer of both, "it would undoubtedly be advantageous to the capitalists of England and to the consumers in both countries, that under such circumstances, the wine and the cloth should both be made in Portugal, and therefore that the capital and labour of England employed in making cloth, should be removed to Portugal for that purpose." Echoing Smith, he noted that this does not happen in practice because, "the fancied or real insecurity of capital, when not under the immediate control of its owner, together with the natural disinclination which every man has to quit the country of his birth and connexions, and intrust himself with all his habits fixed, to a strange government and new laws, checks the immigration of capital."

In short, Smith and Ricardo stated their propositions in terms incompatible with modern globalization. Both assumed that capital would remain in the domestic market. And as a corollary, both conceived of trade as occurring only on the basis of goods for goods.

Ricardo then went further than Smith, from positive statements about how the world does work to a normative one about how it should: "These feelings [of allegiance to a nation], *which I should be sorry to see weakened*, induce most men of property to be satisfied with a low rate of profits in their own country, rather than seek a more advantageous employment of their wealth in foreign nations" (emphasis added).

In short, Smith and Ricardo stated their propositions in terms incompatible with modern globalization. Both assumed that capital would remain in the domestic market. And as a corollary, both conceived of trade as occurring only on the basis of goods for goods. In Ricardo's telling, England "purchase[s wine] by the exportation of cloth." Smith posited that "if a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry."

To march confidently forward with modern globalization on the basis of Smith and Ricardo is an act of spectacular hubris, equivalent to consulting a treatise on flight that describes how objects can defy gravity if an engine delivers sufficient thrust and an airfoil delivers sufficient lift, then wantonly shoving passengers off a cliff in metal boxes. At least, in that case, most people would stop after the first few bodies piled up. Our economists wave their manuals and shout, "Congratulations, you're flying!"

A Trade Theory in Motion

The enormity of the intellectual failure invites speculation of global conspiracy. *The textbook literally rewrote Adam Smith's theory*. That the errors invariably compounded to the benefit of the wealthy, powerful, and cosmopolitan, at the expense of the typical American family and community, is enough to send one searching for the meeting minutes from whichever Illuminati subcommittee had jurisdiction.

But we should probably hesitate to attribute intention to something more easily explained by inertia and ideology. Expanding trade had proved beneficial for many generations, as economic theory had predicted. At the moment of transition, as ships and railcars laden with natural resources and agricultural products gave way to the post–World War II economy of multinational corporations, integrated supply chains, and international finance, the classical model appeared to hold for globalization generally. Its strict assumptions about immobile capital, and goods exchanged for goods, seemed unnecessary. “Until the 1970s,” observes Hubbard, “both industry and labor in the United States prospered, with little foreign competition. This success made it easier for the United States to play a leading global role in championing openness to globalization and trade.”

Rather than recognize that a particular set of conditions had supported the desirable outcomes, economists concluded that markets delivered such outcomes automatically—that with greater globalization would always come greater benefits. In *The Constitution of Liberty* (1960), Friedrich Hayek criticized those who “lack the faith in the spontaneous forces of adjustment” and he promoted instead the “attitude to assume that, especially in the economic field, the self-regulating forces of the market will somehow bring about the required adjustments to new conditions.” As a prime example, he assured readers that “some necessary balance … between exports and imports, or the like, will be brought about without deliberate control.” How sensible this must have seemed, midway through two decades in which U.S. exports and imports were indeed closely balanced. Why force all those economics students to suffer through Smith’s overly verbose asides about “preferring the support of domestic to that of foreign industry”?

The result is that the modern economist often plays the role of Wile E. Coyote, pressing confidently forward with plans that, unbeknownst to him, have no actual support. Except it is not his own well-being but that of countless American workers, families, and communities that risks a plunge into the canyon below. Still, the effect of forcing the economist to look down can be striking.

Press a proponent on why capitalism will deliver prosperity under globalization, and the account drifts gently off into the void. In the domestic economic context, so-called "supply-siders" have developed a theory whereby whatever policies are most beneficial to investors, who are presumed to be employers, will inevitably benefit workers as well. At least the myth that a "rising tide lifts all boats" can assume that the boats are all moored on the same side of the ocean. What is the story of how the Ohio worker benefits when the local investor moves his capital to Shenzhen in search of a higher return?

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One approach might focus on the Chinese worker. Additional investment in Shenzhen boosts employment and wages there, and those workers will consume more

American goods and services, boosting employment and wages here. But even stipulating that some Chinese consumer demand might eventually reach back to America, it will not match the demand spurred by a domestic enterprise. Smith and Ricardo never suggest that this pursuit of profit abroad will align with the public interest at home, no other theory gives a reason that it should, and empirically it has not.

A second approach might focus on the American investor. By maximizing his profit in Shenzhen, he will himself have more income, which he can then spend on a larger sofa in Ohio. Of course, the sofa itself will probably be made in Shenzhen as well, but perhaps the Ohio salesman can receive a larger commission. This story has not misapplied Smith, it has ignored him completely. The rationale for capitalism has never been that by maximizing the profits paid to investors, society will prosper. Its rationale is that in *trying to maximize their profits* under certain conditions, investors will behave in ways that do generate prosperity.

Smith saw high profits as inversely correlated with the public interest, warning that "the rate of profit does not, like rent and wages, rise with the prosperity, and fall with the declension, of the society. On the contrary, it is naturally low in rich, and high in poor countries, and it is always highest in the countries which are going fastest to ruin." Unlike "the proprietors of land" and "those who live by wages," he observed, the interest of "those who live by profit has not the same connexion with the general interest of the society."

We can as easily tell this alternative story about our Ohio investor: He invests in Shenzhen instead of Ohio, reinvests his profits into other foreign operations or uses various legal mechanisms to avoid the taxation that would accompany a realization of his capital gains, and ultimately hands his money over to a hedge fund that speculates in options markets. He never consumes or invests a dime more in Ohio than he would have as owner of a local factory—though he may finance a foreign factory that bankrupts a local one. He signs the "Giving Pledge" and, dying a wealthy man, leaves enormous sums to reputable foundations that provide addiction treatment and housing assistance to the underemployed residents of his home city. He also leaves a tidy sum to a prominent think tank, endowing a chair in international capitalism, whose holder delivers an annual speech on the ways open markets help Americans economically.

Does this alternative story about our Ohio investor seem more or less likely than the one where he becomes an avid sofa connoisseur, boosting local employment for furniture salesmen? Economic theory cannot answer the question definitively. The political economist must make assumptions about the opportunities available and how someone would weigh the economic and social costs and benefits of each. Ricardo cited "the fancied or real insecurity of capital, when not under the immediate control of its owner," but does that hold today, after decades in which guaranteeing the security of investments abroad has been an explicit policy goal? In his *Theory of Moral Sentiments* (1759), Smith argued that nature had endowed mankind "not only with a desire of being approved of, but with a desire of being what ought to be approved of; or of being what he himself approves of in other men." Of what does the modern financier approve, after decades of enthusiasm for Milton Friedman's declaration that "The Social Responsibility of Business Is to Increase Its Profits"?

What economic theory can tell us is that, insofar as the Ohio investor does reallocate his capital to Shenzhen, America is worse off than had he chosen the best option available in Ohio. That the investor might earn a lower return domestically is simply not of much concern to the people of his community, who would have a local employer offering well-paying jobs and supporting a broader ecosystem of suppliers and customers. Let all of them buy sofas.

At this juncture, many economists will attempt to conflate globalization's corrosion with useful features of economic dynamism like automation and competition. With such skepticism of the "free" market, the argument goes, the people of Ohio would all still be living and working on farms. Not so.

The process innovations by which capitalists find ways to produce more output with less labor are the *sine qua non* of economic progress and a great force for good in the domestic economy. They differ from globalization's substitution of foreign labor for domestic in two vital respects. First, they tend to occur gradually and

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to boost output more rapidly than they reduce labor. In the manufacturing sector, for instance, productivity growth from 1947 to 2000 averaged more than 3% annually—that is, producers halved the labor needed for the same level of output every 20 years or so. Yet manufacturing employment grew by millions. Only since 2000, when similar or slower productivity growth was accompanied by stagnant or declining output, has employment collapsed. Second, even when process innovation does reduce employment, the result is a still-healthy and typically growing local enterprise, offering higher-paying jobs for some that can in turn help to support other enterprises and employment in the community. That's hardly comparable to shuttering a business, or failing to start one in the first place.

Domestic competition moves employment opportunities to a new firm, or perhaps even a new location or occupation. But in this circumstance, declining labor demand in one place bears a hydraulic relationship to increasing labor demand in another. Typically, some firms in a given region will be winning while others are losing, which buffers the net impact on local economies. Long-term net flows of capital from one region to another will tend to occur on the same timescale as domestic migration. Areas with relatively looser labor markets become more attractive sites for subsequent investment. None of this holds true when regions separated by 7,000 miles of ocean, a century of economic development, and incompatible political systems find themselves in a common market.

The prosperity-creating cycle of creative destruction requires entrepreneurs working in parallel both to render labor less necessary in some places and find new uses for it in others. Only when capital must seek out the labor available—when conditions are such that, per Smith, each businessman "naturally inclines to employ his capital ... to give revenue and employment to the greatest number of people of his own country"—can we expect this cycle to operate well and to the nation's benefit. In recent years, it has not.

Bounding the Market

If we want capitalism to deliver broad-based, rising prosperity in America, then we must have a well-theorized understanding of the conditions under which it will succeed. A model focused on ensuring that wealthy people can earn the greatest possible return on their capital is not capitalism; it's oligarchy, and its track record is quite poor. Capitalism works for capital, labor, and consumers when all are indispensable to each other's goals and each gains from their achievement. Interdependence is what translates the pursuit of private profit into public benefit.

An indispensable element for maintaining this interdependence is the bounding of the market, so that the various economic actors have no alternative to each other. In a bounded market, economic analysis and legal treatment of activity depends on whether it occurs within the boundary, across it, or beyond it. That boundary might hypothetically take any form, but in practice it will be a physical boundary, typically a national one. By contrast, globalization and its underlying theory make the goal a boundless market, in which borders have as little relevance as possible to economic transactions.

A bounded market is not an isolated one; goods and services, capital, and people can enter and exit. But their flows are controlled, and for a well-functioning capitalist system the principle of control is balance. Through restrictions on trade or capital flows, public policy can force imports and exports into balance, so that goods and services are exchanged for each other rather than for financial instruments. Increased fulfillment of domestic demand via foreign labor (imports) would occur only alongside a parallel increase in foreign demand for domestic labor (exports). Inflows and outflows of capital would equalize as well. Balance imposes the necessary interdependence on labor and capital while also allowing for the actual benefits of trade that Smith and Ricardo described.

Choosing a free but bounded domestic market over globalization implies neither "central planning" nor a "closed economy." A great benefit of defining clear boundaries for the market and then deferring to private-sector competition therein is that this strategy requires far less state intervention than with the enormous demands placed on bureaucracies to make globalization work. "Free trade" agreements are a case in point: Instead of negotiating endless treaties on "Investor-State Dispute Settlement" to ensure that the American government protects investors when they venture abroad, wouldn't it be simpler just to tell those investors that they'll be on their own?

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Similarly, while limits on globalization's cross-border flows are not the only constraints capitalism requires, they can reduce the need for other interventions. Competition policy, investment policy, labor policy, and financial regulation, for example, all play roles as well in creating the conditions in which the invisible hand leads the individual "to employ his capital in the manner in which it is likely to afford the greatest support to domestic industry, and to give revenue and employment to the greatest number of people of his own country." Greater returns must not be available through the pursuit of monopoly rents or financial speculation. Incentives must exist to reward innovation and expansion that generates a high ratio of public to private returns. Workers must possess sufficient power in the labor market to advance their interests. Globalization makes all this much harder, while a bounded market lessens the need for government action on these fronts.

Even beyond the reach of the invisible hand, the bounded market advances the common good. Economic interdependence invariably strengthens the social fabric, as elites who might otherwise look outward for both peers and employees must instead look inward. Entrepreneurs would pay much greater attention to the quality of public education and the rigor of noncollege pathways—as economic imperatives, not subjects of charity—if the failure of those systems meant their own failure rather than an excuse to hire foreigners instead. Corporate executives in coastal cities might understand their fellow citizens in the domestic hinterland better if their supply chains traveled through it and thus so did they.

But where to draw the boundary? The coherent objection to insisting that American capital use American labor is that the "American" modifier is itself arbitrary. Why not draw the border around Ohio, or Cincinnati, or a particular neighborhood? Why not the Midwest, or North America, or, ultimately, the world? Many facets of that debate are beyond the scope of this discussion, but a few points bear noting.

First, nations matter, and operate as the basic political building blocks of our world. Globalization's boosters prefer not to argue on these terms because doing so requires admitting that they do not think nations matter, or at least they do not *want* nations to matter. But devaluing the nation-state, weakening its sovereignty, and reducing a citizenry's democratic control are inevitable consequences of constructing a global market. And notwithstanding liberalism's one-world ideals, leaders in many other countries remain firmly committed to operating on behalf of their own national interests. If America pursues global supply chains while China pursues national ones, the result will be Chinese supply chains.

Second, a nation's borders define a market with a common legal and economic regime. This limits variation in economic conditions and cost of living, cultural norms and expectations, and regulatory standards. Competition occurs and investment flows based on innovation and value, not arbitrage. With differences in degree rather than kind, shocks from sudden exposure to unprecedented circumstances are rare and change proceeds at a manageable pace.

The national community is itself defined by the mutual dependence of citizens. Whether between labor and capital, rural and urban, civilian and soldier, members of a nation recognize that they owe something to each other that they do not owe to those outside the group. This is true not only as a moral matter, but also as a function of law and policy.

Third, the national community is itself defined by the mutual dependence of citizens. Whether between labor and capital, rural and urban, civilian and soldier, members of a nation recognize that they owe something to each other that they do not owe to those outside the group. This is true not only as a moral matter, but also as a function of law and policy. Programs of social insurance, for instance, place a nation's citizens in reliance on one another and their combined productive capacity. The national government takes on debts that burden the taxpaying public to make investments that benefit it. The political unity required to preserve a democratic republic relies upon recognition and reinforcement of these relationships, and the economic order should reflect it.

Fourth, markets tend toward convergence, so their borders should be drawn around areas within which convergence is desirable. Insofar as the nation recognizes itself as a community, it can support convergence that lifts up those least well off. Insofar as citizens face few linguistic, cultural, and legal barriers to internal migration—at least as compared to emigration—their potential mobility more closely matches that of capital and offers a release valve for economic pressure. Historically, America's regional economies experienced strong regional convergence, stitching the nation more closely together.

> ***Globalization's internal contradictions mean that, far from optimizing capitalism, it has left capitalists with a thorny dilemma: Free trade or a free market, choose one.***

In the era of globalization, convergence within America has stalled and even reversed, replaced by a convergence between the United States as a whole and the much poorer nations of the developing world. This is exactly what we should have expected, and indeed what many did expect and wish. Perhaps, from the perspective of a benevolent global dictator, this would be desirable. From the perspective of the American people, it is not.

The irony of the relentless push for globalization by the most passionate free-marketeers is that, in the process, they have grievously wounded the free market they prize above all else. The elimination of trade and capital barriers between China and the United States has imported not just cheap Chinese goods but also Chinese distortions and abuses. The investment decisions of American corporations now turn on the machinations of authoritarian communists. Every consumer shops in a market rife with forced labor. As Chinese policies warp investment decisions in ways harmful to the economic trajectory and national security of the United States, American policymakers must forfeit vital industries or respond with more heavy-handed interventions of their own. As the fortunes of a narrow set of "winners" diverge further from the broader base of "losers," more redistribution is required to fulfill the empty promise of a larger economic pie.

Globalization's internal contradictions mean that, far from optimizing capitalism, it has left capitalists with a thorny dilemma: Free trade or a free market, choose one. The correct choice is a free market in which domestic capital must make use of domestic labor to serve domestic consumers. Unlike globalization, that is a formula for broad-based prosperity.

The bounded free market is the economic model I thought I was defending in my confident case for free trade, because it is the model within which capitalism works and it is the model that economists teach. Unfortunately, it is not the model they have implemented. If they cannot defend globalization as it operates—and now would be rather late to start trying—then the time has come for them to find new work. Damage to their industry will be more than compensated for by advancements elsewhere. ■

How we got globalization so wrong

Conflicted Party

THE HONORABLE JEFF SESSIONS

When I came to the Senate in 1996, two years after the Gingrich-led revolution, Republican momentum was still strong. We were a staunch Reaganite majority to the rescue, united in the fight for free markets and limited government, against anything that smacked of socialism. We took our marching orders from the Chamber of Commerce, the *Wall Street Journal*, Heritage, AEI, and CATO.

I remember asking a witness at one early hearing whether America should continue to buy from a country that refused to buy from us. His response was a straightforward "Yes." At another hearing, I asked Federal Reserve Chairman Alan Greenspan about a recent *USA Today* article in which a European businessman explained that the American economy was stronger than Europe's because the United States had fewer taxes, less regulation, and a greater commitment to the free market. I asked the Chairman if he agreed. He looked at me and declared, "I absolutely agree with that." For several years thereafter, I would say in my speeches "Well, I got my marching orders and I'm moving forward."

The animating idea was that a global, free-trade agenda would spread prosperity, deepen interdependence, advance science, further expose the flaws of socialism and communism, and move us beyond history to world peace. Certainly, a great deal of good was accomplished, of which I remain proud.

Yet, neither self-interest nor ideology disappear. The nature of man does not change overnight, if ever. When water is dammed, it seeks weak spots to seep through. There was an assumption that the most powerful and prosperous business leaders, whom I dubbed the "Masters of the Universe," understand the economy best, that they had America's national interest at heart, and that their best interests were everyone's best interests. This was a flawed and dangerous assumption.

As we were getting juiced every morning by our intellectual allies, we failed to recognize that our aggressive trading competitors were advancing steadily, constantly seeking and exploiting advantages, while the economic security of American workers eroded.

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The Self-Interested Elite

The problem was that the powerful and wealthy saw no problem. They benefited from closing American factories and moving jobs abroad. They benefited from lower wages. This was their agenda from the start. Understandably so, as these policies advanced the financial interests of their stockholders.

What's more, the globalist passion for free markets and free trade was applied selectively. Our trading competitors (they were never "partners") were, in their hearts, resolutely mercantilist. They did not believe in comparative advantage as a theory. They just believed in advantages for themselves and their countries. And in their manipulations, these emerging economies had the protection of the global business community, which wanted their low wages and governmental support. Business leaders were quick to insist on free market purity for America, but they knew better than to challenge the great market impurities of the low-cost economies.

In 2010, former General Electric CEO Jeffrey Immelt accidentally told the truth about this unbalanced arrangement, saying, "I am not sure that in the end [the Chinese] want any of us to win, or any of us to be successful." Such criticism would have threatened GE's prospects in China, though, so spokesmen quickly retracted the comment. "Mr. Immelt," they said, "discussed the attractiveness and importance of China as a market for GE."

Global business interests, ever loyal to their bottom line and stockholders around the world, lost any loyalty to the nation that made their prosperity possible. They had zero concern for the damage these policies were doing to middle America.

Having grown up with the normal people of middle America, I began to feel the tension in Washington any time I expressed doubts. When someone did dare to comment on the unfair trade practices of these countries, the historical weapon to right such wrongs—tariffs—remained off-limits. It seemed the word "tariff" was forbidden even to be spoken. Objections to the ideology of the new world order could not be questioned. Among Republicans, any questioning of the forces advancing the interests of capital to the detriment of labor was put down as "union talk." It was that simple.

Global business interests, ever loyal to their bottom line and stockholders around the world, lost any loyalty to the nation that made their prosperity possible. They had zero concern for the damage these policies were doing to middle America. They got cheaper products to sell for greater profits and expected lower prices to satisfy consumers.

The plan was brilliant but for one small problem: a growing dissatisfaction among working Americans. For the globalist, the mechanics of a democratic republic, and even its principles, were a constant impediment to the great progress of globalism they envisioned, and of course its profits. Elections, the Constitution, Congress, the States, the courts—and especially citizens, whose voices our political system was designed to hear—were getting in the way.

The calculated response to the typical American family's frustration was to studiously ignore it. Soon they will go away, or maybe die, the leaders thought. Our focus must be on the future, not the wounded left behind. We are changing the world. The government will have to take care of them.

The Wisdom of Crowds

The force of pell-mell globalization revealed itself in many areas. I felt these forces first and most directly during the immigration debates. There was then, as we can see more clearly now in the Biden administration, a powerful drive by globalists for open borders, which of course they took great care to hide from the populace. During the last big amnesty debate in 2013, over a billion dollars was raised and spent to pass the legislation. They almost won. How close it was is too long a story to relate here, but every lobbyist in town, the media, public radio, TV, universities, big agriculture (but not most farmers), civil rights activists, liberal mainline Christian denominations, and Marxists were lined up. Only the people were opposed.

A new world vision was also arising, in which binding trading agreements and treaties would shift power from nations to transnational entities controlled by unaccountable bureaucrats. I had seen this idea more than a decade before in the initial glow of the European Union. Many were quietly working to establish a North American Union consisting of Canada, Mexico, and the United States. This union would have a common currency, open trade, and open borders. Some during the Bush administration were open to the idea.

"

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The Trans-Pacific Partnership (and the Trans-Atlantic Partnership that was to follow) was the next big step. As with the European Union, each nation would have one vote: one for the Sultan of Brunei, one for the President of the United States. This was the globalist ideology at work. I argued that a great nation like the

United States, which operated at an entirely different level than other nations, should never subject itself to such controls. The globalists were like the Lilliputians, using their many strings to bind the giant Gulliver.

TPP was "fast-tracked" by a 60–38 vote in the Senate before the final language even existed, meaning the complete version could be passed by a simple majority without debate. Its supporters had locked in united establishment support. President Obama, Speaker Boehner, Leader McConnell, and of course the Chamber of Commerce, Silicon Valley, and all the globalists, progressives, and leftists anticipated a great victory. Republican leadership couldn't wait to sign, seal, and deliver the package to our corporate funders.

Then an unexpected event torpedoed the well-designed plans. Donald Trump came down that Trump Tower escalator. He pounded the TPP relentlessly, and his voice was heard by the people. Finally, someone was speaking for them, and they in turn made their voices heard. The tide quickly turned. No final vote was ever held. Even Hillary Clinton flipped to opposition.

I, like other allies in the fight, was derided as a populist. Populism has always had a bad reputation among the comfortable establishment, of course. And populists deserve condemnation when they descend into demagoguery. But reality tells us that smart people will always seek advantage, exploit existing rules when they can, and try to reshape the rules in their favor. A government exists to protect the security, the prosperity, and the freedom of all its people, not just the sophisticated, and to advance the long-term health of its nation. There is nothing wrong with honestly and forcefully defending the legitimate interests of the American citizen when those interests are being eroded by the special interests of the powerful.

In the Senate, I supported some of the policies, at least in part, that I now criticize, at least in part. I remain proud of the Republican agenda overall. Our party alone had the national breadth and strength to turn America away from a socialist course. But our establishment was wrong on immigration. The people were right. Our establishment went too far on trade. The people were right. Our establishment overreached on war and foreign policy. The people were right.

There is wisdom in crowds. Good leaders serve and listen carefully to those they serve. The interest of the globalist class is not coterminous with that of the good, dutiful Americans who comprise this great country. Globalists do not provide objective advice, and their experts have no special claim on the truth. Not on trade, not on immigration, not on crime, not on voting, not on culture, not on free speech, not on religion. Theirs is a special interest and must be understood as such.

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Median household income in America is about $60,000 a year. Half of American households make less, and some much less. Meanwhile, the *Washington Post* noted recently, there are 745 billionaires in the country. Their wealth increased by 70% during the pandemic, and this wealth now exceeds the collective wealth of the bottom 60% of Americans. A party without a cogent message for the advancement of all our people, which does not listen to all our people, has no moral basis to govern them. The message that whatever is best for the globalists will someday and somehow be best for all was never a good or truthful one, and it certainly won't hunt now.

Fortunately, in our constitutional order, ultimate power lies with the people. They can elect wise leaders capable of negotiating these perilous waters and arriving at a destination of freedom, prosperity, and security for all. America must and will continue to be an active leader in the world, defending truth, law, free enterprise, and faith when and where we can. We must and will continue to trade worldwide—shutting down the global economy is not an option, and would serve no one. We must and will, with realism and judgment, defend American interests worldwide, and forcefully engage those who threaten our security.

The leaders of our sovereign nation-state must protect the just and long-term interests of all our citizens. Our citizens come first; such is the nature of nations. History has not ended; the era of nation-state has not ended. It alone has authority by laws and heritage to call on its people to sacrifice for an important cause. It alone can enter into strong agreements with other nations.

Between the Extremes

The struggle for conservatives, as we recover our bearings and pursue a just global order that works for the American people, is to navigate between the various extremes that would cause harm. One extreme, the one to which we fell prey in recent decades, is blind faith in the globalist perspective. Business leaders have useful insights, but their agenda is not America's. They serve their stockholders. Our leaders must serve their stockholders, the American people.

Another extreme is the dishonest populism of demagogues. Serving the people does not mean simply telling them what they want to hear or, worse, telling them that which will foster grievance. As Edmund Burke told his own constituents, "Your representative owes you, not his industry only, but his judgement; and he betrays you instead of serving you if he sacrifices it to your opinion."

The third extreme is socialism. Conservatives have the good fortune that socialism's siren song holds little appeal—Americans do not wish power concentrated even for ourselves, and we do not believe even the best-intentioned government could wield it well. But just as we should ignore the socialists who warn that profits are evil and business has nothing to offer, we should ignore the extreme market fundamentalists who believe public policy itself has no role to play.

Between these extremes, we can find a common-sense conservatism that rejects the ideology of globalization without shutting out the world. America should always engage with other nations. But we must do it in ways that preserve our people's political control, and in ways that actually benefit us.

First, we must give up the illusion that other nations see the world as we do or want what's best for us. Realism and history teach us that our partners, competitors, and enemies wish to advance their national interest at the expense of ours. Thus, we must vigorously defend our interests with all the power that we have, retaliating against every illegal and unfair trade practice. One indispensable element of that power is access to our markets. The world's traders lust for our markets. The ideology that tariffs are never justified must be rejected, in favor of a pragmatism that accepts their necessity.

> ***Between these extremes, we can find a common-sense conservatism that rejects the ideology of globalization without shutting out the world.***

Second, we must stop treating the lowest price as the final trump card. Will our security be strong if our ships are all built at lowest cost on another continent? Can we dispense with industries producing steel or aluminum or electronics? Can we tolerate Chinese domination of the Internet and our communications? Both immigration and offshoring have badly eroded the position of working Americans. Good American jobs with rising wages that provide self-respect are far better for our culture than paying people not to work.

Third, we must invest to rebuild what we have lost. We no longer make the fastest computer chips. We are drastically short of rare earth elements. Even our drug manufacturing has been outsourced. We celebrate the innovation at companies like Tesla, but most Teslas are already made in Shanghai. Nike recently declared itself "a brand of China and for China." Whatever this is, it isn't a capitalism that advances the American interest.

I mentioned that I once proudly took my marching orders from Fed Chairman Alan Greenspan. Only later did I learn that he believed—and I am still shocked he said this—that, "We are fortunate that, thanks to globalization, policy decisions in the U.S. have been largely replaced by global market forces. … It hardly makes any difference who will be the next president.

The world is governed by market forces."

Greenspan's statement provides an unvarnished look at the radicalism, elitism, and danger of the globalist vision. This ideology is a product of arrogance, it contravenes the lessons of history, and it evinces a clear disdain for the concept that a government's legitimacy depends upon the consent of the governed. Make no mistake, continuing down this path would dramatically remake the world order. We must think far more deeply about such radical change and about the power of the forces that seek to advance it.

Americans, and especially conservatives, must ask: If we are not to be governed by representatives that we choose, who or what will decide our nation's course? Who will control the Masters of the Universe? We are blessed to live in a constitutional republic, which emerged from the evolutionary English model and has proved the only reliable protector of liberty and prosperity in human history. Abandoning all that in favor of impersonal, international economic forces, no matter how "efficient," would be a folly akin to the disastrous French Revolution.

Now is the time to reject this agenda and the elites who promote it. The American people must be made aware of the threat and rallied to reject it. If that is populism, then populism we need. ■

The Uniparty Game

The Uniparty and its constituencies in Politics, Big Business, Academia, and the Washington Blob have spent recent decades advancing a foolhardy agenda of globalization with unanimous support in our nation's capital.

We've compiled 12 quotes reflecting the dogmatic tenets of this consensus; can you tell where on the political spectrum they originate?

Bulls in the China Shop

At the turn of the 21st century, a bipartisan collection of politicians, academics, business leaders, and policy "experts"—call them "the Uniparty"—devoted much of its energy to fighting for, and later defending, free trade with China. It succeeded: the United States granted China "Permanent Normal Trade Relations" status in May 2000, and China joined the Word Trade Organization (WTO) in December 2001.

Choose the leader who made each statement:
(answers on page 55)

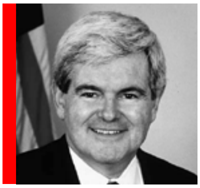
#1

"I believe that having [China] in the WTO will not only have economic benefits for the United States and other countries ... but will increase the likelihood of positive change in China and therefore stability throughout Asia."

Bill Clinton

U.S. President, 1993–2001

– or –



Newt Gingrich

Republican Speaker of the U.S. House of Representatives, 1995–1999

#2

“We can give the world confidence that openness works. That openness creates jobs. That openness creates prosperity and openness leads to better lives in China and in the U.S. And, I believe the world would like to hear that message from us.”

Carlos Gutierrez

Secretary of Commerce, Bush Administration, 2005–2009

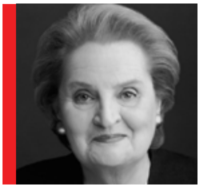
– or –

Hillary Clinton

Secretary of State, Obama Administration, 2009–2013

#3

“Trade with China will promote freedom. Freedom is not easily contained. Once a measure of economic freedom is permitted, a measure of political freedom will follow. [...] Trade freely with China, and time is on our side.”



Madeleine Albright

Secretary of State, Clinton Administration, 1997–2001

– or –

George W. Bush

U.S. President, 2001–2009

#4

"Intel, a manufacturer of semiconductors, is an American firm striving to realize these principles. Each of Intel's 1,000 Chinese employees receives a home computer and the company is in the process of providing each with home Internet access. Moreover, Intel's operations in China are managed under the same environmental, health, safety and labor policies the company applies to its U.S. operations—all of which are higher than Chinese norms. Average base pay and health benefits are far more generous than those provided by Chinese competitors. The more American companies bring not only our capital but also our values to Chinese soil, the more we can become a partner in unleashing positive change there."

Craig Barrett

Intel CEO, 1998-2005

Glenn Hubbard

Council of Economic Advisers Chair, Bush Administration, 2001–2003

Gene Sperling

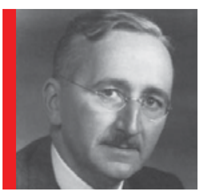
Director of the National Economic Council, Clinton Administration, 1996–2001

The Wealth of Our Nation

When they weren't waxing poetic about a world of "free markets and free people," the Uniparty insisted that embracing globalization would generate unprecedented prosperity here at home. They dismissed concerns about competitiveness and celebrated deindustrialization.

#5

"The essential things to teach students are still the insights of Hume and Ricardo. That is, we need to teach them that trade deficits are self-correcting and that the benefits of trade do not depend on a country having an absolute advantage over its rivals. If we can teach undergraduates to wince when they hear someone talk about 'competitiveness,' we will have done our nation a great service."



– *or* –

Friedrich Hayek
Nobel Prize Winner in Economics, 1974

Paul Krugman
Nobel Prize Winner in Economics, 2008

#6

"Trade has brought untold benefits to our people not the least of which are high-paying jobs, increased consumer choice, increased economic competitiveness."

Sen. Phil Gramm

U.S. Senator (R-TX), 1985–2002

Mario Draghi

European Central Bank President, 2011–2019

Hilda Solis

Secretary of Labor, Obama Administration, 2009–2013

#7

"I'm worried about jobs. And I believe if you trade more, there are more jobs available for hardworking Americans. There are some who play politics with the trade issue. They want to shut down trade. I like to remind people, those who shut down trade aren't confident. They're not confident in the American worker; they're not confident in the American entrepreneur; they're not confident in American products."

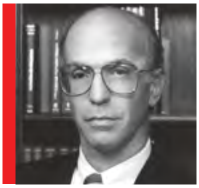
Barack Obama
U.S. President, 2009–2017

– *or* –

George W. Bush
U.S. President, 2001–2009

#8

"The TV manufacturing industry really started here, and at one point employed many workers. But as TV sets became 'just a commodity,' their production moved offshore to locations with much lower wages. And nowadays the number of television sets manufactured in the U.S. is zero. A failure? No, a success."



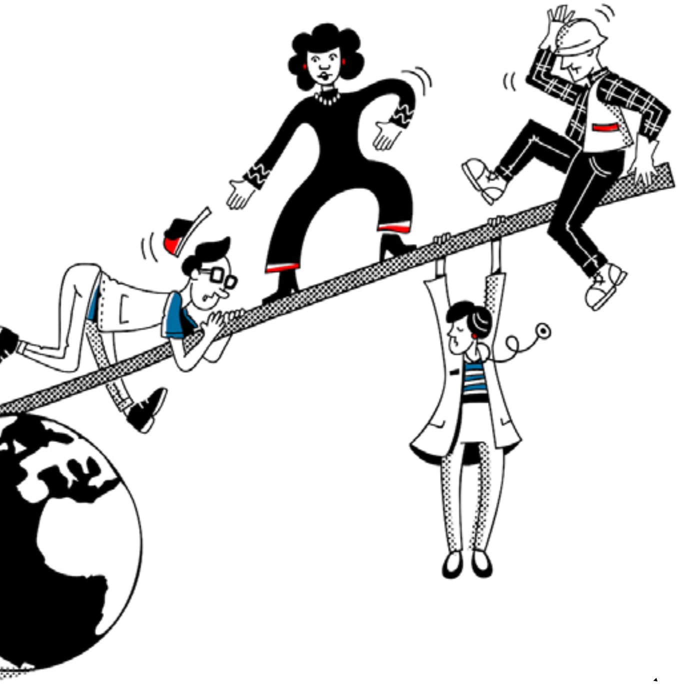
Alan Blinder

Federal Reserve Vice Chair, Clinton Administration, 1994–1996

– *or* –

Greg Mankiw

Council of Economic Advisers Chair, Bush Aministration, 2003–2005



I, For One, Welcome Our New Overlords

Even as it advocated for policy measures to enable globalization, the Uniparty maintained that policy was irrelevant and that markets, not democracy, should govern economic affairs. Globalization was a force of nature to accommodate, not a question of political economy to debate.

#9

"Globalization will continue. It is a fact on the ground. As policymakers, economists, statisticians, political theorists, researchers, academics, and citizens—it is absolutely critical that accurately we model and measure the positive and negative impacts of globalization."

Lawrence Summers

Director of the National Economic Council, Obama Administration 2009–2011

– or –

Susan Schwab

U.S. Trade Representative, Bush Administration, 2006–2009

#10

"Globalization is a fact, not a policy option."

Rep. Xavier Becerra

U.S. Representative (D-CA), 1993–2017

Condoleezza Rice

Secretary of State, Bush Administration, 2005–2009

Tony Blair

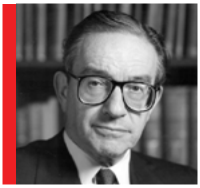
U.K. Prime Minister, 1997–2007

#11

"We are fortunate that, thanks to globalization, policy decisions in the US have been largely replaced by global market forces [...] It hardly makes any difference who will be the next president. The world is governed by market forces."

Lawrence Summers

Director of the National Economic Council, Obama Administration 2009–2011



Alan Greenspan

Federal Reserve Chair, 1987–2006

Donald Rumsfeld

Secretary of Defense, Bush Administration 2001–2006

#12

"What is the role of governments in shaping the new global economy? One role is to get out of the way—to remove barriers to the free flow of goods, services, and capital."

– or –

Joan E. Spero
Under Secretary of State,
Clinton Administration,
1993–1997

Robert B. Zoellick
U.S. Trade Representative,
Bush Administration,
2001–2005

Answers

01. President Clinton delivered these remarks at the 2000 World Economic Forum in Davos, Switzerland, a month after the "Battle in Seattle" protests at the WTO Ministerial Conference in 1999.

02. Secretary Gutierrez was speaking in Beijing at the 18th U.S.–China Joint Commission on Commerce and Trade in 2007, just as the United States was filing an intellectual property-related complaint at the WTO against China.

03. Then-candidate Bush was delivering a campaign address to Boeing workers in Washington State in 2000, endorsing the Clinton administration's efforts to grant Permanent Normal Trade Relations status to China.

04. Sperling was speaking at the 2000 Dallas Ambassadors Forum, making the case for the Clinton administration's efforts to establish Permanent Normal Trade Relations with China.

05. Krugman's essay, "What Do Undergraduates Need To Know About Trade?" was published in the May 1993 issue of the *American Economic Review* and argued that "the most important thing to teach our undergrads about trade is how to detect nonsense." Touché.

06. Senator Gramm offered these remarks in a public statement upon the introduction of a suite of trade bills in 2001—to grant the president "fast track authority" to implement trade agreements, to accede Chile and the UK into NAFTA, and to promote a free-trade zone in the Western Hemisphere.

07. President Bush delivered these remarks at the Port of New Orleans in 2002, outlining his trade agenda.

08. The Princeton University economist Alan Blinder was quoted in *Bloomberg Businessweek* by Intel CEO Andy Grove.

09. Schwab was speaking at a 2008 conference convened by the Woodrow Wilson Center on the need for further academic research to inform free-trade debates.

10. Rep. Becerra made this assertion in a *Los Angeles Times* letter to the editor in 1999. The Clinton State Department adopted the phrase verbatim in its interpretive statement expanding on the statement issued by the United Nations' Women 2000: Beijing-Plus-Five conference.

11. In 2007, Greenspan offered this answer in response to a Swiss newspaper's question about who would be elected president in the next year's general election.

12. Spero delivered these remarks at the fifth annual meeting of the Word Economic Development Congress in 1996.

Assessing the results of the globalization experiment

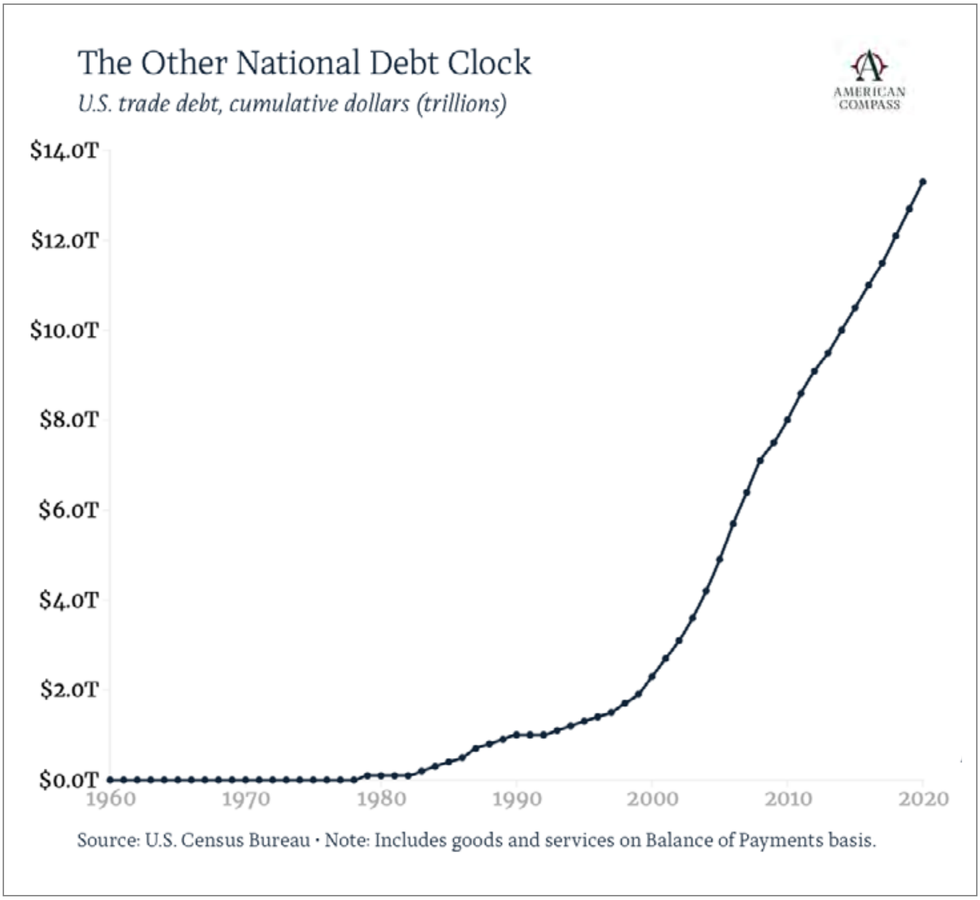
WHERE'S THE GROWTH?

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.

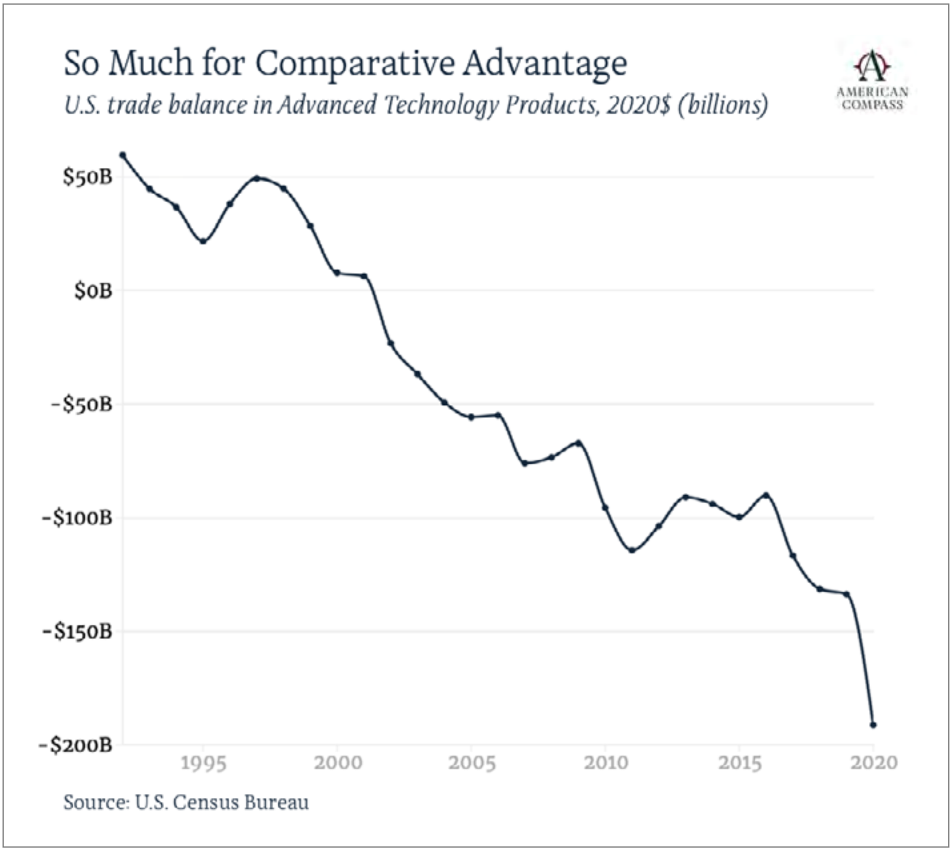
Industrial Apathy

"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.

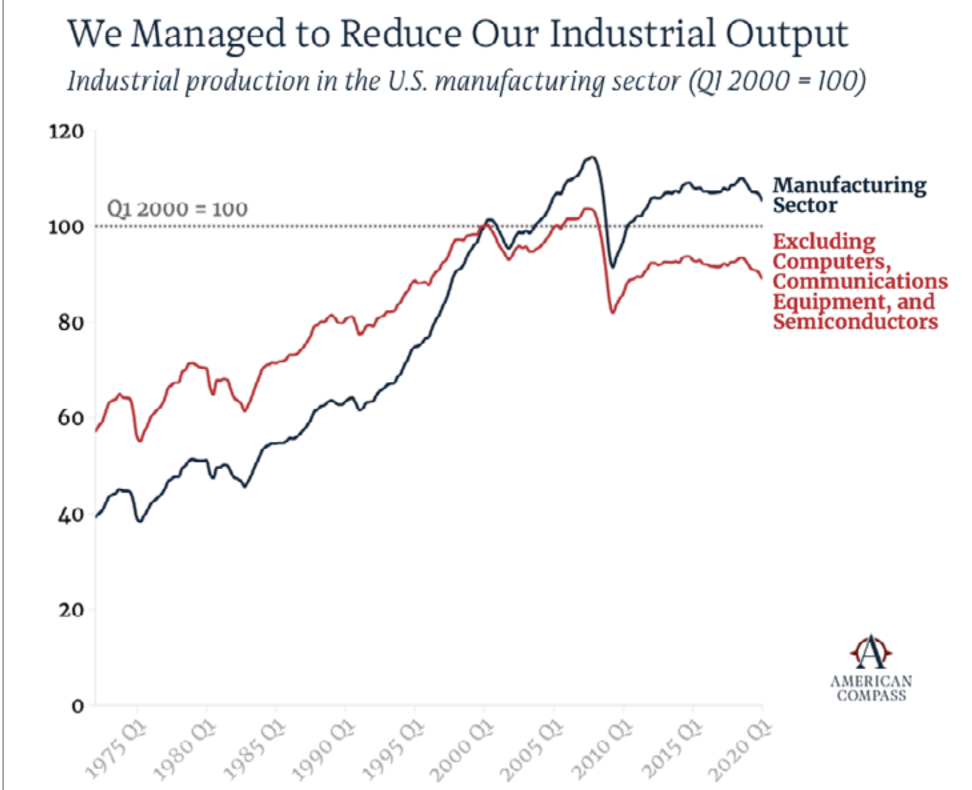


"China will compete for some low-wage jobs with Americans. And their market will provide jobs for higher wage, more skilled people. And that's a bargain for us," Nobel laureate Robert Solow assured Americans in 2000 from the podium in the White House briefing room. The economic theory of "comparative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

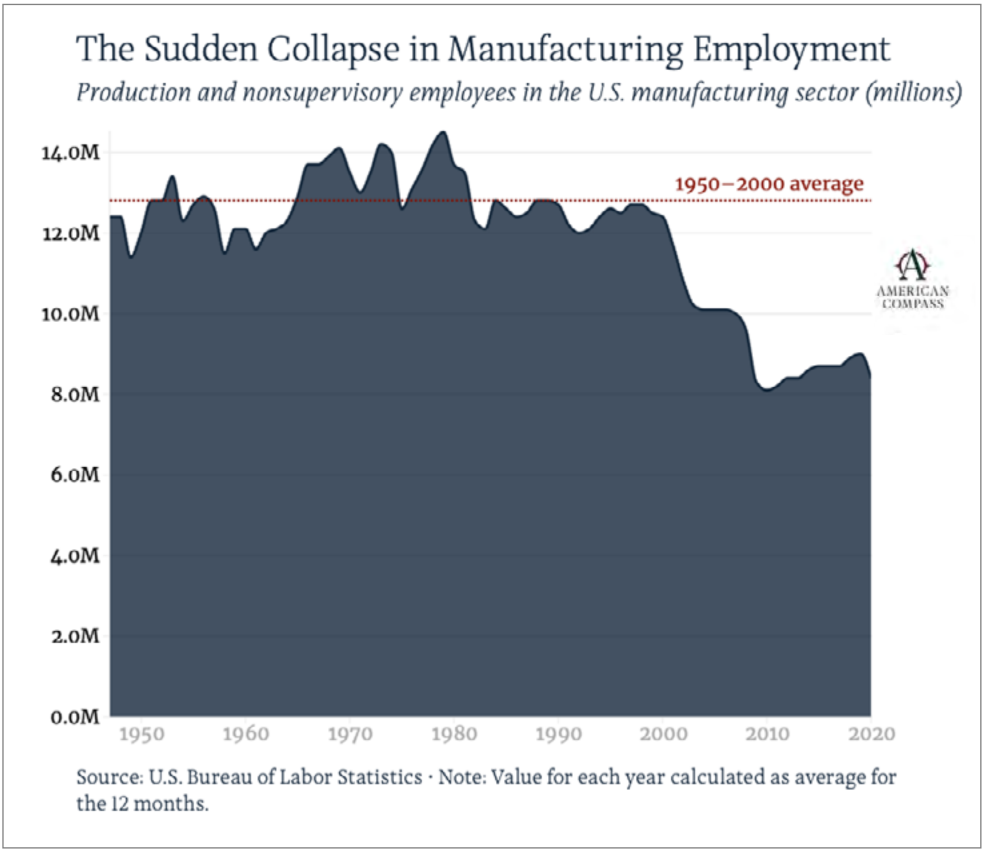
But while we once made Advanced Technology Products for the rest of the world, that advantage has collapsed—from a trade surplus of nearly $60 billion (2020 dollars) in 1992 to a deficit of $191 billion in 2020.



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%.

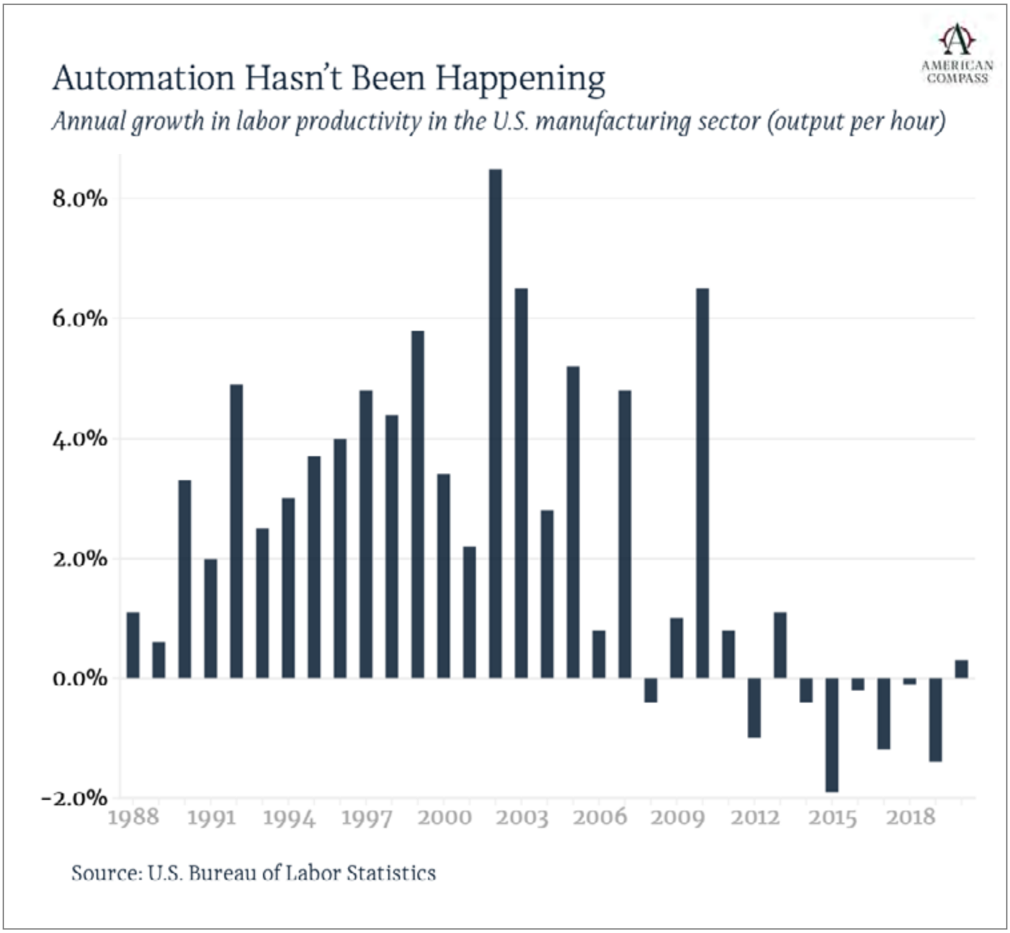


Source: Board of Governors of the U.S. Federal Reserve System



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.

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.

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%.

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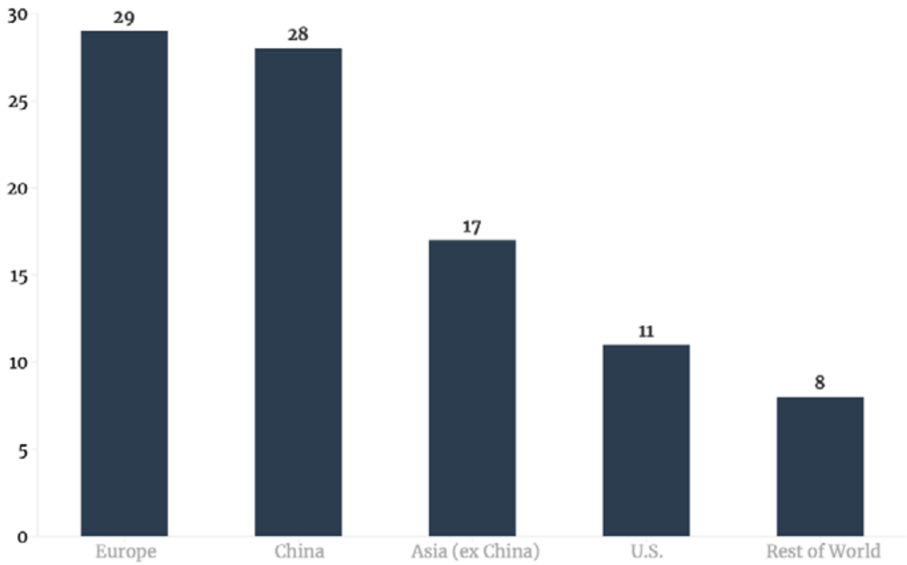
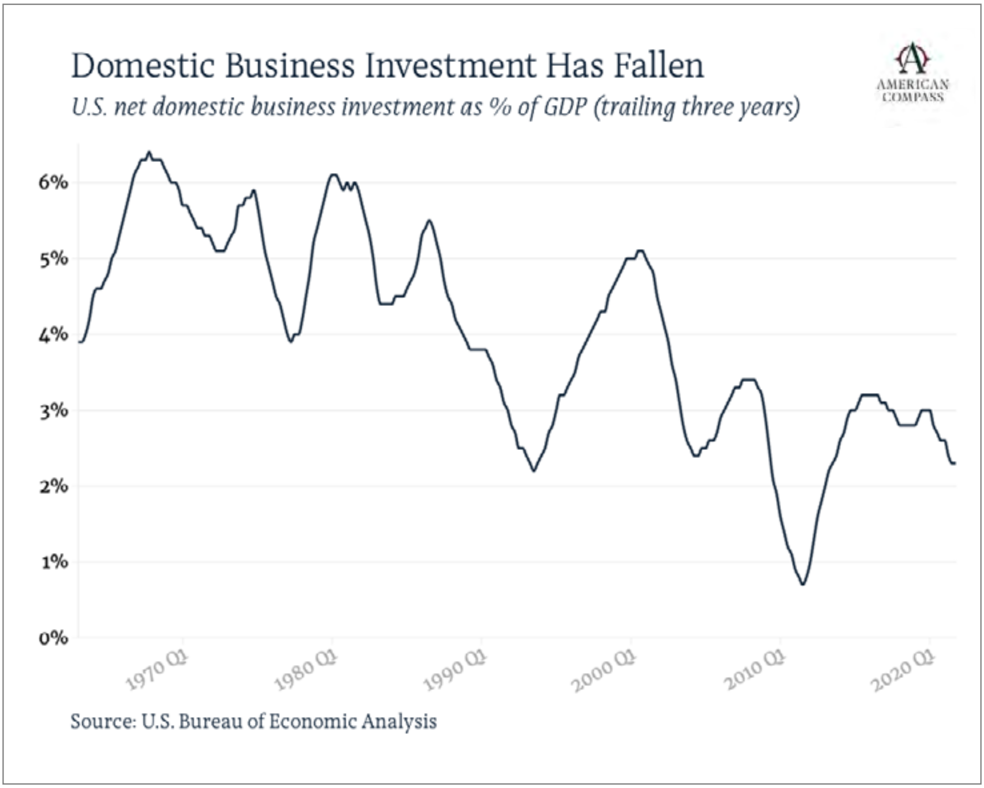
No Longer at the Cutting Edge

Sites identified by World Economic Forum as "Lighthouses" for advanced manufacturing

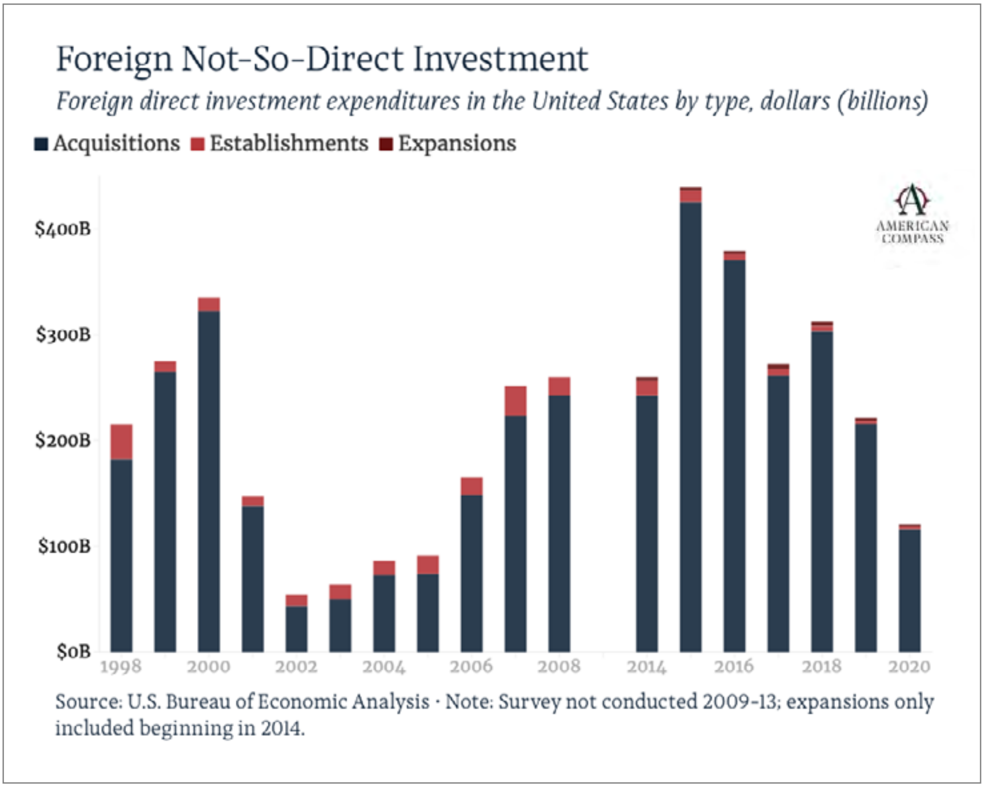


Source: World Economic Forum · Note: The WEF's Global Lighthouse Network encompasses manufacturers that "show[] leadership in using Fourth Industrial Revolution technologies to transform factories, value chains and business models, for compelling financial and operational returns."



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.

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.


Foreign Not-So-Direct Investment
Foreign direct investment expenditures in the United States by type, dollars (billions)
Acquisitions
Establishments
Expansions
$400B
$300B
$200B
$100B
$0B
1998
2000
2002
2004
2006
2008
2014
2016
2018
2020
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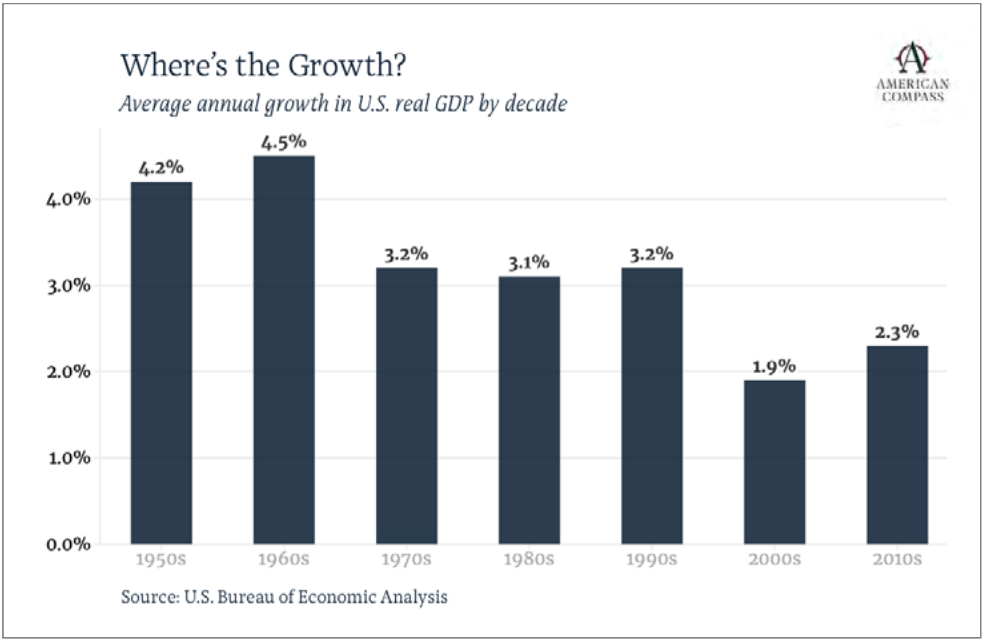
Source: U.S. Bureau of Economic Analysis · Note: Survey not conducted 2009-13; expansions only included beginning in 2014.


Where's the Growth?
Average annual growth in U.S. real GDP by decade
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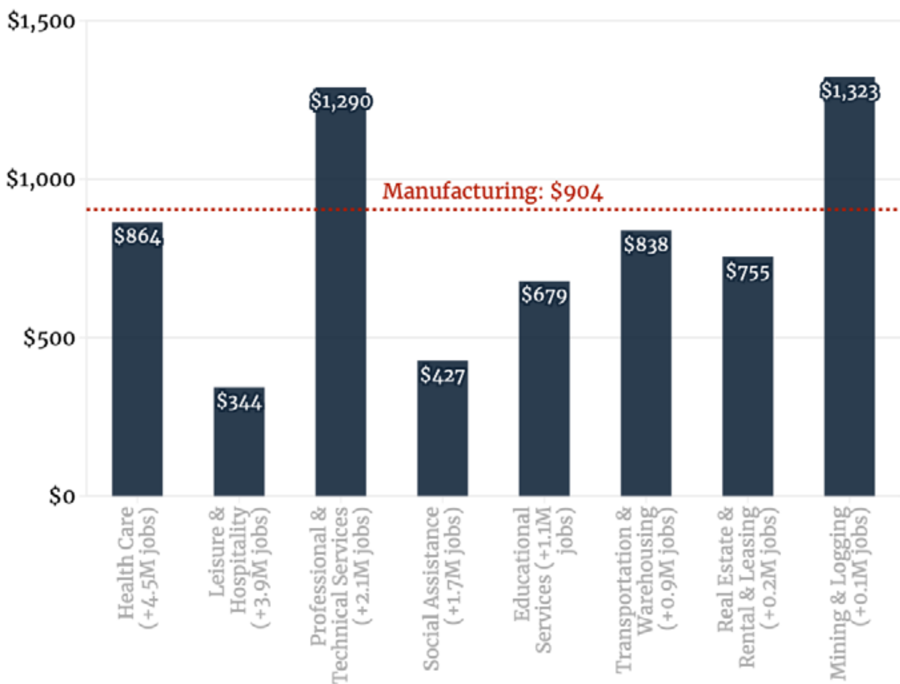
4.2%
4.5%
3.2%
3.1%
3.2%
1.9%
2.3%
4.0%
3.0%
2.0%
1.0%
0.0%
1950s
1960s
1970s
1980s
1990s
2000s
2010s
Source: U.S. Bureau of Economic Analysis

Part II: Tearing the Social Fabric

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

2018 average weekly salary for production and nonsupervisory jobs by sector



Source: Coalition for a Prosperous America analysis of U.S. Bureau of Labor Statistics data
Note: Includes all sectors that experienced net job growth, from 2000 to 2018. Manufacturing lost 3.5 million jobs over the period.

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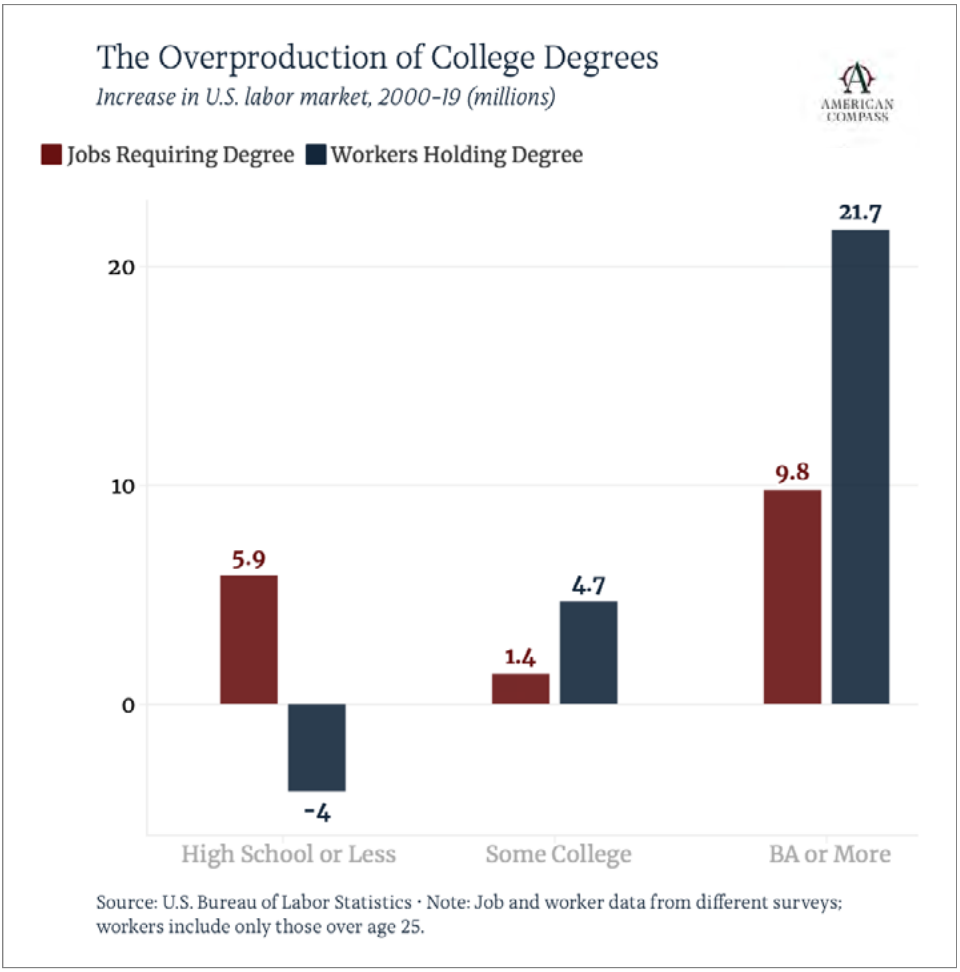
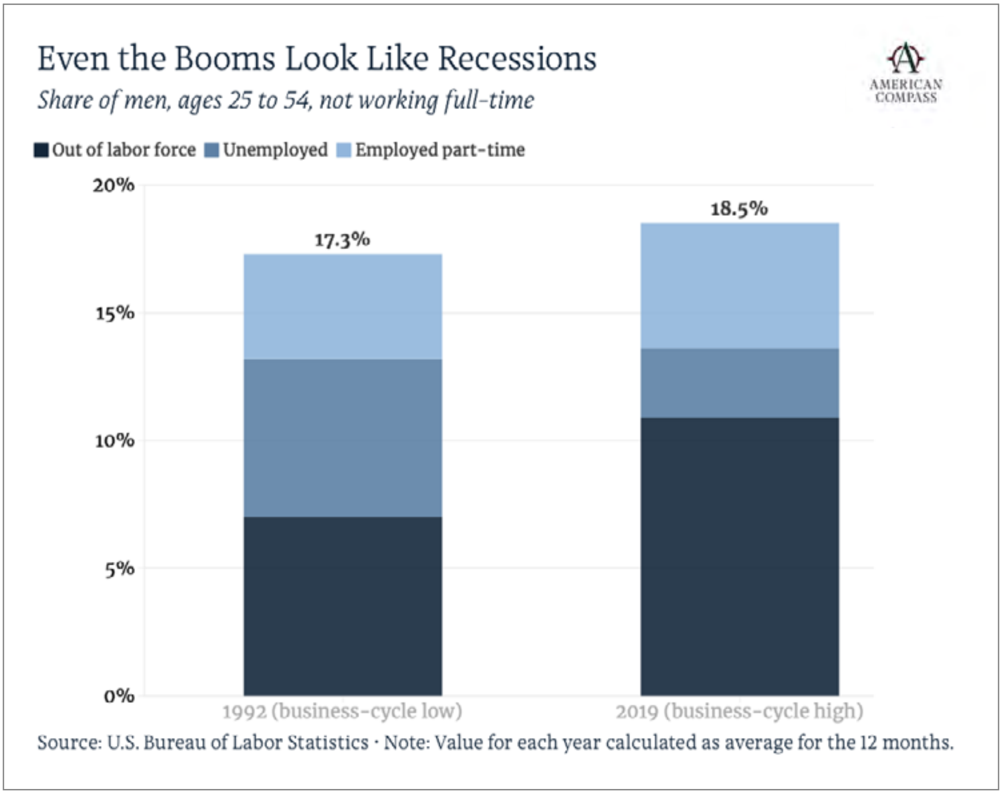
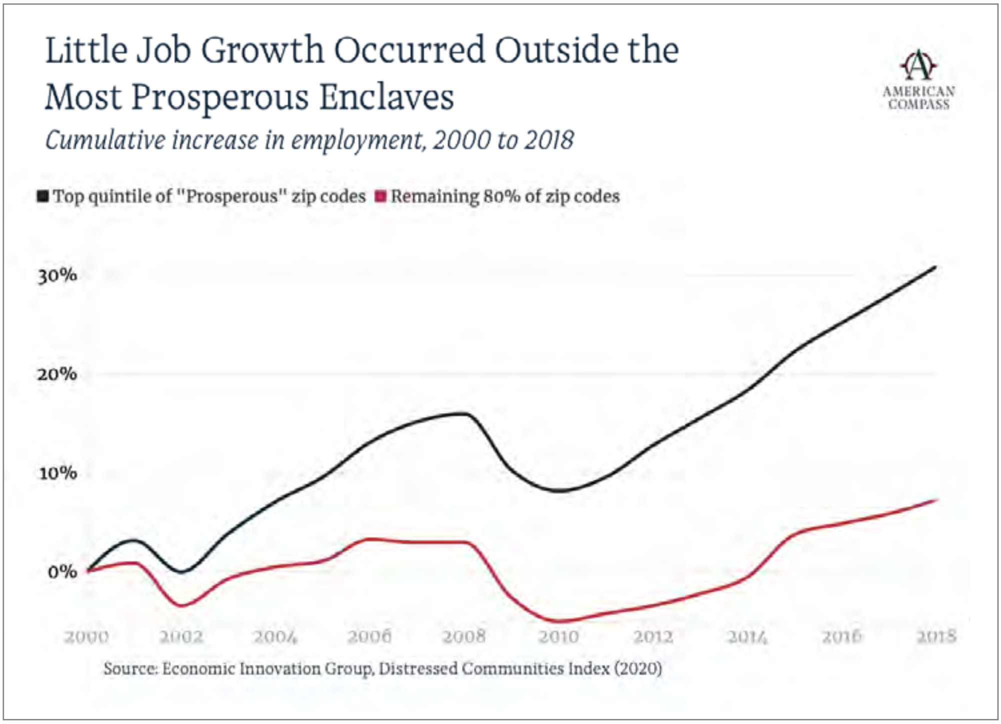
More broadly, the idea that the 21st-century economy's new and better jobs simply require more education has proven wrong as well. As Oren Cass showed in a recent American Compass report, The False Promise of Good Jobs, the U.S. labor market has not been generating plentiful new jobs requiring college 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.



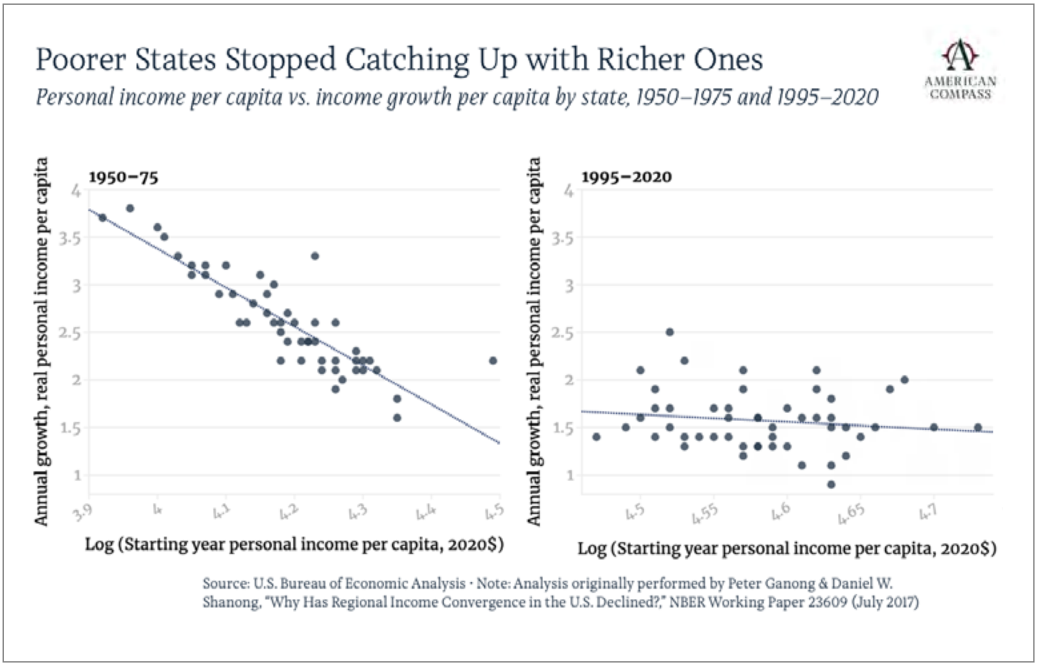
As job opportunities have worsened, so too has the picture of prime-age men (ages 25 to 54) who are working at all. Shifts of a few percentage points can seem insignificant from afar, but they represent the difference between an economic boom and a recession. In the much-celebrated hot economy of 2019, 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.



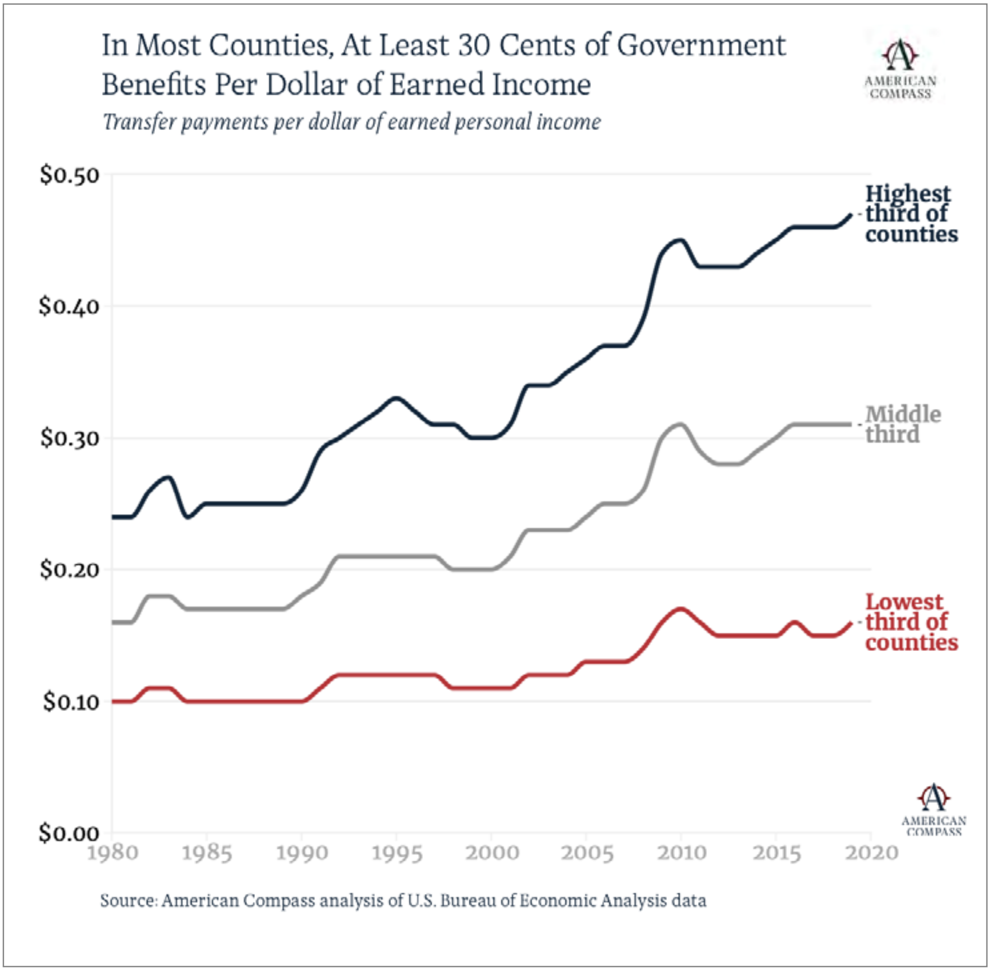
What economic progress has been occurring has also been sharply concentrated geographically. The Economic Innovation Group's Distressed Communities Index shows that while the 20% of zip codes it defines as most "Prosperous" have experienced healthy employment growth in recent decades, the rest of the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



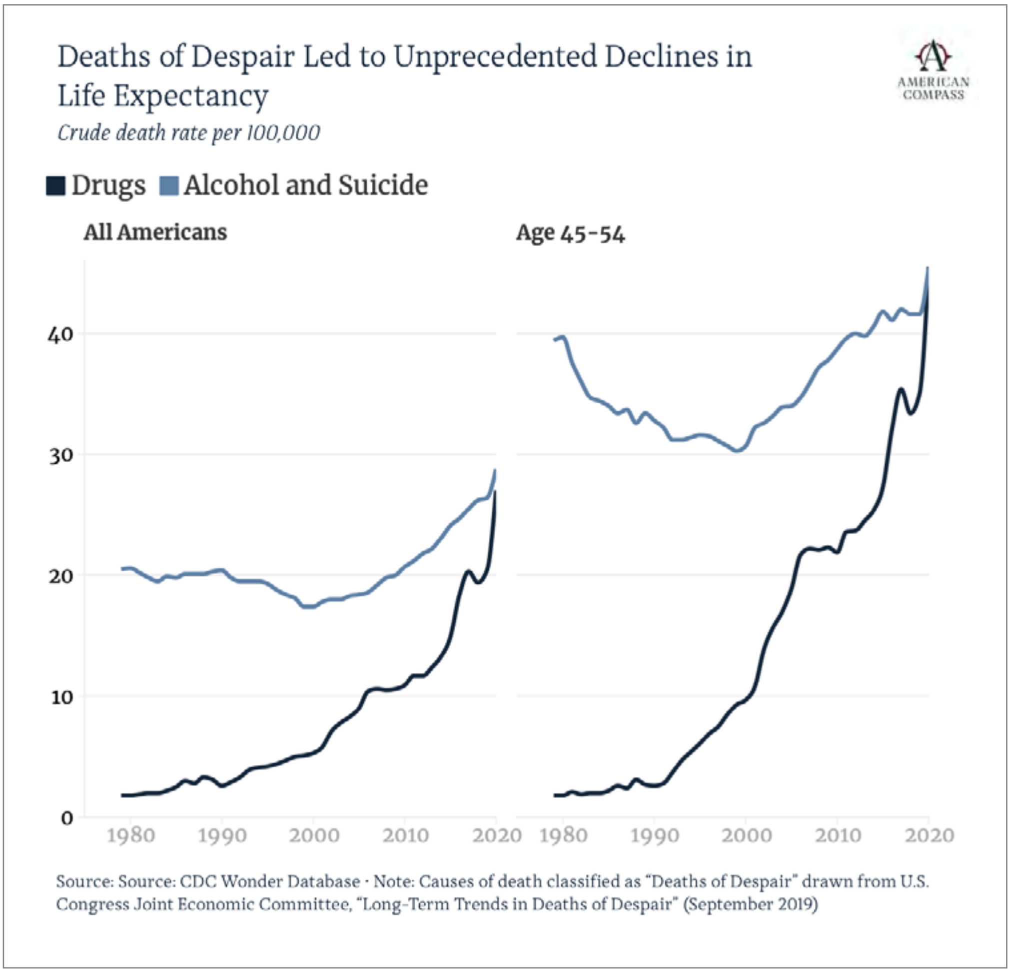
This has also meant that the long-term trend of regional "convergence" in the U.S. economy has reversed itself. For decades, a remarkably tight, inverse correlation held between a state's income level and income growth; the poorest states were growing the fastest and catching up with richer ones. That's 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.



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.



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. ■

Options for policymakers on globalization

The Balancing Act

Globalization is not the inevitable outcome of technological progress, nor is it a prerequisite to growth. The middle of the 20th century was considerably less "globalized" than the "first golden age" of globalization early in the century, was more technologically advanced, and delivered unprecedented levels of broad-based prosperity. Globalization done can also be undone. It is the result of policy choices, not immutable economic forces, as recent developments like the domestic investment surge in semiconductor capacity and Russia's sudden expulsion from global trade and finance have demonstrated.

Just as policymakers chose the current order, they can choose to move beyond globalization toward more balanced global flows of goods, capital, and labor. They must consider how a balanced post-globalization market should look and what policies can achieve it.

Change will inevitably be gradual. Having spent decades digging its hole, America will need time to climb out, and filling in the pit will have costs. But upfront cost is no argument against making the investments needed to place the nation on a better economic trajectory. Who better to understand this principle than globalization's advocates, practiced in proudly demonstrating their sophistication by explaining that shuttered factories, collapsing industries, and dying communities were for the best because the eventual results would benefit all?

Leaders across the political spectrum have taken encouraging steps in this direction, acknowledging the failure of the globalization experiment and pledging a new course. But that rhetoric is infrequently matched by action adequate to the scale of the problem. This is not for lack of options. Policymakers need to be judged not by what they are willing to say, but what they do.

Righting globalization's wrongs will require action on several fronts: market access and investment rules to govern the flow of goods and capital; sovereign actions taken in relation to global institutions; and immigration policy that affects labor market composition. In each case, policymakers who wish to take serious action, and to be taken seriously, must commit to using and enhancing existing tools of enforcement. Proceeding to the next level, the more aggressive step should be to create new tools that make globalization better serve American interests. The third level, and what should be the ultimate goal, is to articulate a vision beyond globalization that would allow the American economy to regain its balance.

This report provides an overview of the challenges in each area and examples of the policy options available on each front and at each level. Contrary to the once grand, now fatalistic claims that globalization is an inevitable and uncontrollable force, statesmen have the capacity to act, as well as the obligation.

The Balancing Act: An Overview

Policymakers can act on several fronts: market access and investment rules to govern the flow of goods and capital; sovereign actions taken in relation to global institutions; and immigration policy that affects labor market composition. In each case, policymakers who wish to take serious action, and to be taken seriously, must commit to using and enhancing existing tools of enforcement. Proceeding to the next level, the more aggressive step should be to create new tools that make globalization better serve American interests. The third level, and what should be the ultimate goal, is to articulate a vision beyond globalization that would allow the American economy to regain its balance.

<table>
<tr><th></th><th>Level 1
Enforcement</th><th>Level 2
New Tools</th><th>Level 3
A New Balance</th></tr>
<tr><td>Market Access</td><td>• Reform Generalized System of Preferences
• Reform Miscellaneous Tariff Bill
• Reform de minimis exception and exclude nonmarket economies</td><td>• Apply countervailing duties to currency manipulation
• Strengthen forced/child labor protections
• Establish multilateral sanctions prohibiting technology transfer to China
• Expand export financing</td><td rowspan="2">A new balance would set market rules that ensure balance in both the current and capital accounts. Options include:
• The Global Tariff
• The Import Certificate
• The Market Access Charge</td></tr>
<tr><td>Investment</td><td>• Expand CFIUS review
• Block noncomplying firms from capital markets
• Align U.S. sanctions across departments
• Halt use of Investor–State Dispute Settlement</td><td>• Establish outbound CFIUS review
• Impose local content requirements
• Condition access to U.S. market on domestic investment
• Provide domestic development financing</td></tr>
<tr><td>Global Rules</td><td>• Strengthen anti-dumping and countervailing duties
• Endorse and expand use of Section 301 actions</td><td>• Reform WTO dispute resolution system
• Withdraw Special and Differential Treatment from developed economies</td><td>A new balance would utilize the benefits of the WTO system while departing from its defaults as needed.
• Negotiate sector-specific, plurilateral agreements applicable only to participants
• Deny Most Favored Nation (MFN) status to bad actors</td></tr>
<tr><td>Immigration</td><td>• Mandate E-Verify
• Increase penalties for employer violations</td><td>• Reform H-1B visa to close loopholes and focus on highest-skilled workers
• Cap and phase down H-2A visa for agricultural workers</td><td>A new balance would welcome global talent while maintaining a tight labor market that promotes worker power and domestic investment.
• Adopt merit-based formula as major component of permanent immigration system</td></tr>
</table>

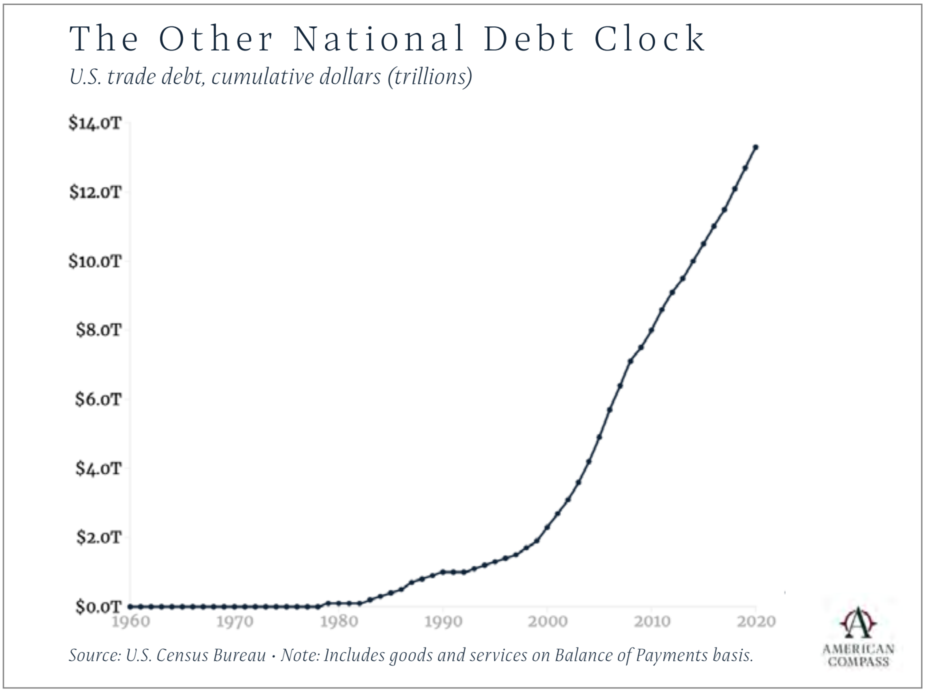
Market Access & Investment

Globalization's basic ambition is to establish a global market in which goods, services, and capital cross borders seamlessly, flowing from their most efficient providers to their most efficient uses. Widely differing economic conditions and national policies around the world have instead produced trade and capital flows that have weakened the American economy. The underlying problem is one of *imbalance*.

The flow of goods, services, and capital into and out of a national economy is recorded in the *balance of payments*—the summary of all transactions between one country and the rest of the world. Transactions fall into one of two accounts: The *current account* captures the flow of goods and services, with the net effect reflected as a trade balance that represent the nation's net income. The *capital account* captures exchanges of financial instruments and assets, with the net effect reflected as a change in asset ownership.

These two accounts will always balance against each other. If one is in surplus, the other will be in deficit by the same amount, because any transaction must have comparable value on each side. If the United States imports more goods than its export income can pay for (i.e., if it runs a current account deficit), it must find some other way to pay—namely, by selling assets (i.e., by running a capital account surplus) and using the proceeds to buy imports. This is what the United States has been doing for decades.

Thus, the flipside of America's stalled industrial output and accumulation of over $10 trillion in trade debt has been more than $10 trillion of capital account surpluses. Optimists describe this as "investment in the United States," but almost none of it has taken the form of productive foreign investment in new domestic operations. Rather, the tangible effect has been the world acquiring American debt, equities, and real estate—instruments that represent claims on the nation's future economic value. American investors, meanwhile, have not hesitated to move their own resources abroad—and even to China, boosting firms that pose direct threats to American interests and values. Each of these flows poses its own set of problems.



The Problem of the Trade Deficit

Reliance on cheap imports has reduced demand for domestic productive capacity. The resulting decline in investment and loss of productive capacity has weakened supply chains and transferred technical knowhow to other nations, offering competitors and adversaries an advantage while degrading the domestic industrial commons vital to innovation and growth. The loss has also eliminated millions of well-paying jobs and devastated communities and entire regions.

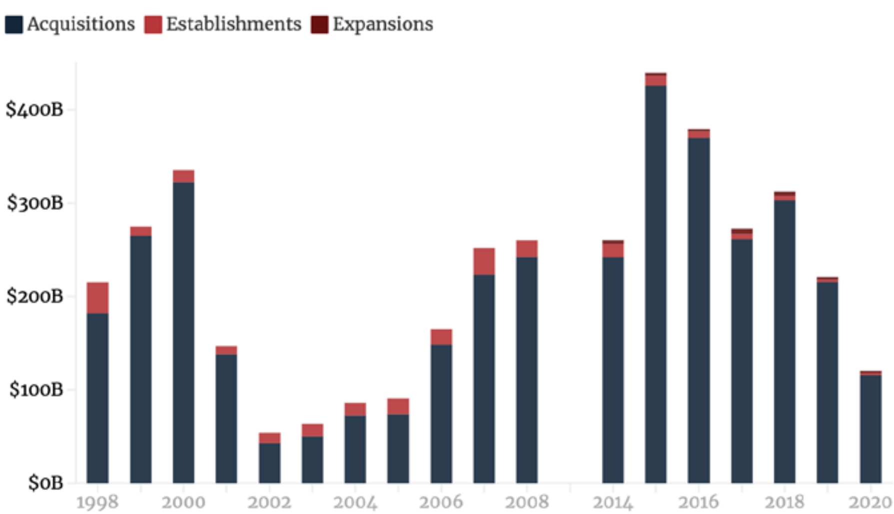
The Problem of Foreign "Investment"

Globalization has increased the flow of capital into the United States, but it has not increased investment. Instead, what is called "investment" is invariably the acquisition of existing assets, not the expansion of productive capacity through new "greenfield" capital. In

2020, foreign investors spent $120.7 billion to acquire, establish, or expand businesses in the United States. Less than 4% of that total went toward the establishment of new enterprises or expansion of existing ones. As of January 2022, foreign investors hold $7.7 trillion of U.S. Treasury securities. Their equity holdings have risen from 11% in 1980 to about 40%. They control over 35 million acres of agricultural land (greater than the acreage of Alabama or New York State). To sell U.S. assets like bonds, equity, or real estate is to sell future claims on American economic value. It presents serious economic vulnerabilities and is unsustainable. It can also grant controlling interests in key industries and insight into sensitive technologies and data; in 2016 and 2017, for instance, Chinese investors made 38 acquisitions of U.S. critical technologies, more than twice the total of any other country.

Foreign Not-So-Direct Investment

Foreign direct investment expenditures in the United States by type, dollars (billions)



Source: U.S. Bureau of Economic Analysis • Note: Survey not conducted 2009–13; expansions only included beginning in 2014.

The Problem of Outbound Investment

While foreign acquisition of U.S. assets should concern policymakers, the outflow of American investors' capital abroad should concern them no less. Context matters. An American corporation acquiring a foreign competitor with valuable technology is different from, say, the American financial sector channeling resources to a state-supported Chinese firm supplying the Chinese Communist Party's surveillance apparatus, or Tesla moving the majority of its manufacturing capacity to Shanghai. These latter examples are neither hypothetical nor desirable.

Seeking Balance

The trade deficit and capital surplus appear in separate accounts, but they are conceptually intertwined and together tell a simple story: America has purchased imports with its assets instead of exports. Rather than produce things here and send them abroad in exchange for the goods produced abroad and consumed here, America takes in goods and sends back pieces of paper that represent claims on the nation's economic future—all while reducing the nation's future economic capacity and bolstering that of competitors. This is neither beneficial nor sustainable.

Policymakers should welcome international trade that generates prosperity for both sides, when the goods made in one nation are desired in the other, and vice versa. Such reciprocal trade is mutually beneficial, maintains balance between exports and imports, and thus maintains domestic industrial capacity. Likewise, foreign direct investment should be welcome when it expands the domestic productive capacity.

Level 1—Enforcement

Existing rules and enforcement tools already provide American policymakers with opportunities for improving economic outcomes.

Market Access

Under the Generalized System of Preferences, many imports from 119 developing countries and territories are allowed to enter the U.S. duty-free to promote economic development in those countries, regardless of whether they offer reciprocal treatment to American exporters. Yet in many cases, the result is less to promote development than to expose American producers to unfair competition from foreign firms exploiting weak labor and environmental standards. Congress should condition such preferential treatment on exporting nations adopting stronger standards that ensure American workers can compete on a level playing field. The *Generalized System of Preferences and Miscellaneous Tariff Bill Modernization Act,* introduced by House Ways and Means trade subcommittee chairman Earl Blumenauer (D-OR) and included in the House of Representatives' *America COMPETES* Act trade title, is an example of legislation that would move the GSP's eligibility criteria in the right direction.

Likewise, the Miscellaneous Tariff Bill (MTB) temporarily reduces or suspends import tariffs on certain goods, to ensure needed inputs can affordably enter the country. However, the MTB often benefits imports competing directly with American-made products, violating its intended purpose. Congress should restrict its application by limiting its benefits to only those intermediate inputs needed by domestic manufacturers (as proposed by the Coalition for a Prosperous America), or by prohibiting its application to finished goods that compete with domestic products, as the

Generalized System of Preferences and Miscellaneous Tariff Bill Modernization Act would do.

Since the 1930s, U.S. law has allowed items of trivial value to enter the country duty-free, so that Customs and Border Patrol (CBP) need not assess every souvenir or small gift brought or mailed into the country. This *de minimis* rule, while sensible, no longer plays this common-sense purpose. In 2016, Congress raised the *de minimis* limit to $800, which now covers vast swathes of e-commerce, allowing $128 billion of duty-free imports to enter the United States in 2021, largely from China (in 2021, 63% of new sellers on Amazon in the U.S. were based in China). This trade not only violates the intent of U.S. law, but has also become an epicenter of consumer fraud and a leading vector for the importation of fentanyl and other harmful substances.

Reform here would be straightforward. In 1938, the *de minimis* limit was $1. Congress should return to a much lower limit and deny *de minimis* treatment altogether for nonmarket or hostile nations or frequent sources of fraud and illegal sales. Rep. Blumenauer's Import Security and Fairness Act, also included in the *America COMPETES* Act trade title, would deprive de minimis treatment to goods from nonmarket economies or countries on the U.S. Trade Representative's (USTR) priority watch list, and from goods subject to trade enforcement actions (e.g., Section 301 or Section 232 actions), though it would not reduce the overall limit.

Investment

The U.S. government established the Committee on Foreign Investment in the United States (CFIUS) in 1975 to scrutinize foreign investment transactions that might threaten national security. Since enactment of the Foreign Investment Risk Review Modernization Act of 2018 (FIRRMA), non-controlling stakes in businesses involved with critical technology, critical infrastructure, or sensitive personal data, as well as some real estate transactions, also face review. This expanded scope still does not capture the full range of potential strategic concerns that foreign investment, especially from nonmarket or adversarial nations, can represent.

Congress should expand CFIUS's scope to other critical industries including pharmaceuticals, agriculture, and media/entertainment. The bipartisan *U.S. Pharmaceutical Supply Chain Review Act,* introduced by Senators Marco Rubio (R-FL) and Elizabeth Warren (D-MA), would require CFIUS to examine foreign direct investment's impact on the American pharmaceutical industry. Numerous senators have called on CFIUS to review specific agricultural transactions;the bipartisan Foreign Adversary Risk Management (FARM) Act would place the Secretary of Agriculture on CFIUS and expand the committee's mandate to review foreign controlling stakes in American agriculture, as would several other bills; and Senator Warren has proposed banning foreign control of agricultural land, as several states already do. While CFIUS is already permitted to consider whether a transaction would impair U.S. industrial advantages, Congress could also expand review to encompass long-term national economic interest, as Senators Sherrod Brown (D-OH) and Chuck Grassley (R-IA) proposed doing through a new Commerce Department process in the *United States Foreign Investment Review Act.*

Outbound investment poses other challenges. Many Chinese firms, for instance, enjoy access to American financial markets and investment while avoiding American financial transparency standards. Their practices introduce excessive risk for American markets and investors, including retail investors and public pension funds. The bipartisan *Holding Foreign Companies Accountable Act,* enacted in

2020, sought to close this major loophole by prohibiting foreign companies from listing on U.S. exchanges if they fail to allow Public Company Accounting Oversight Board (PCAOB) inspection for three consecutive years. Congress should strengthen this provision, for example by further tightening the compliance window: the bipartisan Accelerating *Holding Foreign Companies Accountable Act*, which passed the Senate in 2021, would cut the window from three years to two. Such steps would also help address China's abuse of Variable Interest Entities—shell corporations established by Chinese firms that allow Americans to invest in Chinese enterprises, but give those investors no real ownership rights or protections.

Of course, most Chinese firms are listed on Chinese exchanges beyond the reach of U.S. securities law. Major American asset managers nonetheless include these firms in their indexes, meaning that investments by both individual investors and pension funds holding index funds are flowing to companies not subject to American financial rules, many of which are already under U.S. sanctions for national security or human rights abuses. Congress should prohibit the inclusion of such companies in U.S. indices and associated index funds, as the Coalition for a Prosperous America has asked the Securities and Exchange Commission to do under existing authority.

U.S. sanctions laws suffer from many other gaps that prevent them from effectively blocking problematic investment flows. For instance, over 400 Chinese companies appear on the U.S. Department of Commerce Entity List, which designates firms subject to U.S. technology export controls, yet the vast majority of them can still receive American capital. Listed firms should be expelled from American capital markets, either by legislative action such as the *American Financial Markets Integrity and Security Act* proposed by Senator Marco Rubio (R-FL) and Rep. Mike Gallagher

(R-WI), or by automatic cross-listing on the Treasury Department's Non-SDN Chinese Military-Industrial Complex Companies List (NS-CMIC List). In its 2021 Annual Report to Congress, the independent U.S.-China Economic and Security Review Commission called on Congress to ensure that entities sanctioned under one U.S. authority are sanctioned in parallel under others.

Finally, American policymakers should rethink their approach to protecting U.S. investors abroad. The use of Investor–State Dispute Settlement (ISDS) mechanisms in trade agreements insulate investors from the risks of deploying their capital abroad, by removing disputes with foreign governments from the sovereign courts of those governments to non-state tribunals. While reducing investor risk, ISDS mechanisms also deprive foreign nations of sovereignty as a price of attracting investment and encourage American investors to move their capital to otherwise unattractive legal environments abroad.

One can appreciate why investors demand this treatment, but less clear is why providing it is in America's national interest. Brazil has long refused to sign treaties that include ISDS, and has innovated with alternative state-to-state approaches; nations like South Africa, Indonesia, Ecuador have moved away from the use of ISDS; and ISDS skepticism in Europe is very high. The United States should also reject the use of ISDS. Similarly, American negotiators should permanently abandon discussions for a U.S.–China Bilateral Investment Treaty (BIT), which have been suspended since 2017. Investing in China should mean putting one's capital at the mercy of the Chinese Communist Party. If investors are looking for a better legal environment, they could consider America.

Level 2—New Tools

Strengthening existing tools and deploying them more wisely can mitigate some of globalization's harmful effects, but making globalization work for America will require much more. Policymakers need new tools to address conditions and policies elsewhere that yield unfavorable flows of goods and capital, and to foster conditions domestically that promote desirable flows.

Market Access

Foreign nations that manipulate their currencies artificially reduce prices for their exports and increase prices for imports from the United States. Policymakers should treat currency manipulation as the market distortion it is and subject it to the same countervailing duties imposed in other cases of unfair export subsidies. The bipartisan *Leveling the Playing Field Act 2.0*, introduced by Senators Rob Portman (R-OH) and Sherrod Brown (D-OH), is a good example of this approach.

Forced and child labor enable cheap production of goods not due to efficiency or "comparative advantage" but the violation of basic human rights. These violations and their economic effects introduce unfair import competition into the American market and violate deeply held values. U.S. law already prohibits the importation of goods produced with forced labor, but enforcement requires proof, which can be difficult to establish. Much stricter scrutiny of foreign supply chains is warranted. The bipartisan *Uyghur Forced Labor Prevention Act*, enacted in December 2021, created a rebuttable presumption that all goods manufactured in China's Xinjiang Uyghur Autonomous Region are the product of forced labor and may not enter the United States. Congress should more broadly shift the burden for the integrity and transparency of supply chains to the multinational corporations utilizing them, which bipartisan efforts like the *Slave-Free Business Certification Act*, introduced by Senators Josh Hawley (R-MO) and Kirsten Gillibrand (D-NY), would do. Congress should also create mechanisms for supply-chain transparency and institute a general prohibition on forced labor conditions for any future Free Trade Agreements (FTAs) or authorizations of Trade Promotion Authority (TPA).

While foreign firms can sell in America almost regardless of their practices, American firms often find themselves shut out of foreign markets. This problem is especially pronounced in China, which requires partnership with Chinese firms and transfer of technology as conditions of market access. In many cases, China outright steals American intellectual property. So long as China employs these practices, the United States should prohibit American firms from transferring technology into that nation, using mechanisms similar to the ones that prohibit the transfer of military and dual-use technologies to adversaries. The same standards used by CFIUS in prohibiting foreign acquisition of critical U.S. technologies could apply. Where American policy prohibits foreign control of a firm with sensitive technology, it should likewise prohibit transfer of that technology into China, where it will most likely be either legally or illegally appropriated.

American policymakers should seek a multilateral coalition of similarly aggrieved Western nations to impose these restrictions on technology transfer, strengthening their effect while also ensuring that no one nation's firms lose out to another nation's in the Chinese market. The multilateral Wassenaar Arrangement, in which 42 nations have agreed to place export controls on conventional arms and sensitive dual-use technology, provides a good template.

Finally, if the American market is to operate within a global one, American policy will need to support its domestic producers more effectively, just as other nations support theirs. One front in this competition is export financing. President Trump was correct to sign a reauthorization of the U.S. Export–Import Bank in 2019, and President Biden has proposed a domestic manufacturing initiative at the Bank to support American exporters in critical high-tech sectors like semiconductors and advanced batteries. Parallel efforts are needed for small exporters, like the 2019 U.S. Senate Committee on Small Business and Entrepreneurship plan to reauthorize the Small Business Administration, which would have modernized and strengthened the SBA's export support programs.

Investment

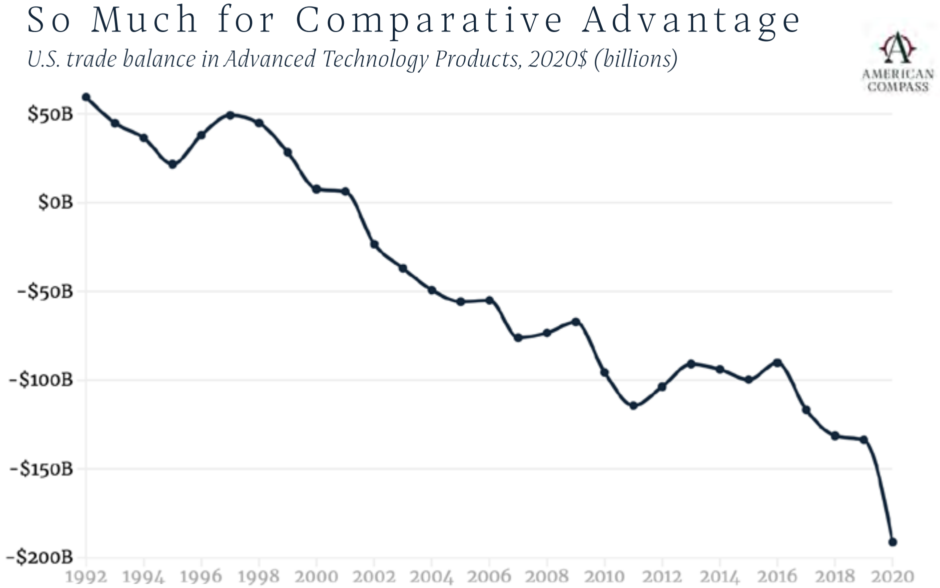
The Committee on Foreign Investment in the United States (CFIUS) already has authority to screen foreign investment in American companies and block transactions of concern. To curtail American capital flowing to foreign adversaries, Congress should establish a similar process to screen and block outbound investment. The bipartisan, bicameral *National Critical Capabilities Defense Act* would establish an interagency committee to screen outbound investment to adversary nations like China and Russia, preventing the offshoring of critical capabilities. The U.S.–China Economic and Security Review Commission has also endorsed this idea, recommending that "Congress consider legislation to create the authority to screen the offshoring of critical supply chains and production capabilities to the PRC [People's Republic of China] to protect U.S. national and economic security interests…This would include screening related outbound investment by U.S. entities."

Policymakers also need to address the decline in productive domestic investment, particularly in critical industries, by leveraging market forces. Local content requirements, which require that some percentage of a good's value be made in the United States, provide one way to create guaranteed domestic demand while leaving competitors in the private sector to fill it. The Biden Administration has sought to strengthen federal procurement Buy America content requirements, as has the bipartisan *Make It in America Act*. But policy must go beyond federal procurement. Senator Josh Hawley (R-MO) and Rep. Claudia Tenney (R-NY) offer a good example of this approach in their *Make It in America to Sell It in America Act*, which would require that at least 50% of the value of certain goods critical to national security or the American industrial base be domestically produced for those goods to be sold commercially in the United States.

Rather than, or alongside, local content requirements, Congress could also require foreign firms seeking access to the U.S. market to build domestic capacity for serving that market. Quotas imposed by President Reagan on Japanese automakers, for instance, led them

So Much for Comparative Advantage

U.S. trade balance in Advanced Technology Products, 2020$ (billions)



Source: U.S. Census Bureau

to move a significant share of their manufacturing for the U.S. market to the American South. The results speak for themselves: In 2021, Toyota overtook GM as the best-selling automaker in America and, as the company often touts, over 70% of the vehicles it sells in America are produced in its 14 North American plants (10 of which are in the United States). Toyota celebrated the 10 millionth Camry produced in Kentucky in 2021.

Finally, public investments and subsidies can make private investment in domestic productive capacity more attractive. For instance, the bipartisan CHIPS Act provides support for expansion of domestic semiconductor fabrication capacity. Likewise, a domestic development bank or finance authority could make greater financing available for private investment in manufacturing and industrial capacity. Good examples of this approach include the *Industrial Finance Corporation Act* introduced by Senator Chris Coons (D-DE) and the *American Innovation and Manufacturing Act* introduced by Senators Marco Rubio (R-FL) and Jim Risch (R-ID), which would provide patient capital to small manufacturers.

Level 3—A New Balance

The tools described at Levels 1 and 2 would help to address globalization's many deficiencies. But they represent awkward patches to a fundamentally flawed system, and require complex interventions by policymakers in the American market. The underlying problem is that globalization encourages dramatically imbalanced flows of goods and capital, disrupting the conditions under which capitalism functions properly. Rather than construct contraptions to constantly bail out a leaky boat, policymakers' long-term goal should be to patch the leak and impose basic constraints that restore balance to the domestic economy.

Balance does not mean isolation, which would have consequences as negative as globalization's. Rather, the market's "rules of the road" should ensure that goods and services imported are of equal value to those exported, which in turn would ensure a balance in capital flows. Trade could still occur at high levels, and certainly would occur in those places where other nations had substantial comparative advantages relative to America's own. An added advantage would be that, to the extent balance is achieved, fewer government interventions in the domestic free market would be required. At least three approaches to imposing balance deserve consideration.

The Global Tariff

Rather than impose case-by-case, industry-specific tariffs to address particular disputes or seek leverage over other nations in negotiations, the United States could impose a simple global tariff on all imports that increases steadily in response to trade deficits and decreases in response to trade surpluses. Former U.S. Trade Representative Robert Lighthizer has suggested this approach, which harkens back to the spirit of early efforts at constructing a balanced global trading system. During the Bretton Woods negotiations of 1944, economist John Maynard Keynes proposed a global mechanism whereby tariffs would be imposed on nations that ran excessive trade surpluses, thus ensuring that trade between nations remained balanced. The United States, which was running a trade surplus and expected to continue doing so, rejected the idea.

The Import Certificate

For a market-based alternative to a global tariff, policymakers could also consider a proposal suggested by Warren Buffett in 1987, and again in 2003 and 2016: create a "cap-and-trade" system for imports. Buffet proposed the creation of Import Certificates (ICs) that would grant American firms the right to import a given value of goods. The government would issue ICs to American exporters based on the value of their exports, and those exporters could sell their ICs to firms seeking to import. ICs would create a subsidy for exporters, financed by an implicit tariff on importers, which would automatically rise or fall as needed to hold exports and imports in balance. Former Senators Byron Dorgan (D-ND) and Russ Feingold (D-WI) proposed a version of this idea in their *Balanced Trade Restoration Act of 2006*. Ambassador Lighthizer has also suggested that this approach could be effective.

The Market Access Charge

Rather than address trade imbalances directly, policymakers could take advantage of the relationship between the current and capital accounts and focus instead on the excessive global demand for American financial assets, the sale of which finances the U.S. trade deficit. The Coalition for a Prosperous America has proposed a market access charge on foreign purchases of dollar-denominated American financial assets when the United States is running a trade deficit, driving down demand for those assets, reducing the dollar's value, and thus making the acquisition of American goods and services relatively more attractive. The charge could increase or decrease with the size of the trade deficit and phase out when the balance of trade is restored. Senators Tammy Baldwin (D-WI) and Josh Hawley (R-MO) have formalized this proposal in their *Competitive Dollar for Jobs and Prosperity Act.*

Global Rules & the WTO

In *The Betrayal of American Prosperity*, Clyde Prestowitz notes that the World Trade Organization (WTO) was not formed to achieve the economist's fantasy of unregulated trade, in which each nation chooses of its own accord to drop all trade barriers. Rather, it was "supposed to be a *reciprocal* trade agreement," which "formally prohibits or restricts subsidies, dumping… nontransparent regulation, and a wide variety of other practices, including particularly any action that might nullify or impair the value of negotiated reductions in trade barriers."

This does not describe the WTO's current reality or its effect on the American economy. Nations like China routinely engage in actions that "nullify or impair the value" of the favorable trade relations that WTO members are required to extend to one another. The WTO has proven inadequate to the task of preventing these actions, or of equitably resolving the trade disputes that result. American policymakers should ensure their existing trade remedy tools are adequate to the task of protecting the national interest in trade disputes, while seeking fundamental reforms at the WTO that apply global trade rules equitably.

Ultimately, policymakers must take a realist view of the WTO's role and capacity. The organization represents an important mechanism to facilitate trade around the world, and its default rules greatly benefit American importers and exporters who would otherwise need to rely on individually negotiated bilateral or multilateral agreements with every other nation. This convenience has value. But treating WTO rules as sacrosanct, especially when its trading partners do not, has not served America well. U.S. trade strategy must allow departures from the WTO's defaults whenever doing so is in the national interest.

Level 1—Enforcement

U.S. law provides existing tools for imposing tariffs in response to unfair trade practices by other nations, but they often prove inadequate to deterring the practices or relieving the Americans harmed.

Antidumping (AD) and Countervailing Duties (CVD) allow a U.S. administration to provide relief to domestic businesses harmed by unfair import competition. If a trading partner is found to be dumping or unfairly subsidizing a product, duties can be added to offset the difference in price between the imported and domestic goods. However current AD/CVD law contains weaknesses that make its application difficult in cases in which countries are repeat offenders, route their products or subsidies through other countries, or seek to circumvent existing rules. These shortcomings should be remedied, as the bipartisan *Leveling the Playing Field Act 2.0* seeks to do by streamlining and sharpening trade remedy processes to deliver faster relief to U.S. industries harmed in such cases.

Section 301 of the Trade Act of 1974 provides a highly flexible trade remedy, allowing a U.S. administration to impose import restrictions and suspend trade agreement concessions if a trading partner's actions unreasonably burden U.S. commerce. The United States Trade Representative made liberal use of 301 investigations in prior eras, particularly during the Reagan Administration when the WTO's predecessor arrangement (the GATT) was proving inadequate. However, the WTO agreement reduced the potential scope of 301 actions and forbade their use on any matter covered by WTO rules. While the Trump Administration's trade policy signaled renewed comfort with 301 actions, which the Biden Administration has also embraced, their use remains unusual. Congress should pass a resolution expressing support for increased use of 301 actions in defense of American industry, helping to renormalize their use and sending a strong warning to trading partners to play fair. Conversely, policymakers should reject efforts like the *Trade Act of 2021* that would prevent effective use of 301 actions.

Level 2—New Tools

If a global economy governed by WTO rules is to have any prospect for long-term vitality, the WTO will require serious reform.

The WTO's dispute-resolution system is badly broken. Its Appellate Body routinely issues new trade "law," never agreed to by member nations, rather than adjudicating the rare individual case as intended. The Trump Administration declined to approve appointments to the Appellate Body, effectively preventing its operation. Congress should formalize this practice and establish that it is U.S. policy not to approve such appointments, nor recognize the legitimacy of dispute resolution decisions until the system is reformed. One straightforward reform would replace the Appellate Body with an arbitration system that empanels one-time tribunals as needed to rule on specific cases, with rulings relevant only to the parties concerned.

The WTO offers developing nations Special and Differentiated Treatment (SDT) status, which allows them special advantages. SDT is a founding principle of the WTO, reflecting the belief that trade is essential for promoting development in poorer countries. But nations self-declare their status and major economies like China continue to claim it. This practice must end, replaced by objective economic criteria that reasonably limit SDT to the developing countries that merit it. The Trump Administration formally directed USTR to seek reform of SDT practices, and to ignore self-designations as "developing" when countries unreasonably claim it. Congress has also demanded reform though bipartisan resolutions. H.Res 746, introduced in 2019 by Rep. Ron Kind (D-WI) and Rep. David Schweikert (R-AZ), was adopted by the House Ways and Means Committee in 2020. S. Res 101 from Senators Rob Portman (R-OH) and Ben Cardin (D-MD) takes a similar stand. Ambassador Katherine Tai, the Biden Administration's USTR, has testified to Congress that SDT should not be abused by major economies; administration policy must follow her lead. If reform is not achieved, Congress could consider defining inappropriate claims to SDT as an unfair trade practice subject to Section 301 or other trade remedy action.

Level 3—A New Balance

The United States today is expected to abide by its WTO obligations, even as major trading partners like China routinely ignore their own obligations. The WTO has been unable to remedy the situation; on the contrary, it has sometimes ruled against the United States for responding in defense of its own interests. While the intent of the WTO is to apply broad, equal rules to all members, the global trading system's reality is a hodgepodge of bilateral and multilateral agreements, tariffs and other non-tariff barriers. Why treat a system as sacrosanct that does not and cannot meet its stated goals or apply its own rules equitably?

The "nuclear option" proposed by some policymakers, of withdrawing from the WTO altogether, would carry significant costs. The U.S. has Free Trade Agreements (FTAs) with 20 countries, but most nations engage in trade with the U.S. under the auspices of the WTO. Leaving would force the trillions of dollars in American economic activity that occurs today within the WTO framework into a murky legal purgatory. Alternatively, some policymakers have called for the reverse approach: expelling nations that are in constant violation of WTO rules and principles or other international norms. But the WTO rules make no provision for expulsion of a member, and while a supermajority of WTO members could theoretically establish such a process, that is unlikely to occur.

A better approach for America is to continue enjoying the benefits of WTO membership and its default framework while asserting the right to depart from WTO defaults as needed. The U.S. has already taken steps in this direction through its increased use of 301 tariffs. The only consequence that the WTO can impose is to grant other nations the right to retaliate in kind against the United States, which of course they already feel free to do whenever they choose.

One WTO rule for the U.S. to reconsider is the requirement that each member extend Most Favored Nation (MFN) status to every other member, meaning that each member benefits from the most favorable terms the United States offers to any member. Free Trade Agreements (FTAs) are exceptions to the rule, but only if they are "comprehensive"—a steep threshold. The United States should ignore this WTO obligation, which has contributed to the WTO's decades-long inability to achieve a new negotiated agreement, which in turn has driven members to litigation through the broken dispute-resolution system. American policymakers should engage in other kinds of negotiation where desired and reach agreements with select nations that are not extended to all WTO members. The bipartisan *Trading System Preservation* (TSP) Act, for example, takes this approach by allowing the U.S. to negotiate sector-specific plurilateral agreements not subject to MFN rules.

Likewise, absent the formal expulsion of a WTO member, the United States should choose unilaterally to treat certain other WTO members as if they were not members. The bipartisan *No Trading with Invaders Act,* introduced in response to Russia's aggression against Ukraine, would permit the United States to revoke Permanent Normal Trade Relations (PNTR, the U.S. term for MFN) for any currently or formerly Communist nation that aggresses against a WTO member. Other bipartisan bills have aimed to directly suspend Russia's MFN status, an approach supported by President Biden. Policymakers should embrace this general approach and expand it to address serial abusers of the international trading system.

While declining to acknowledge another WTO member's status as a member is not contemplated under WTO rules, the concept has precedent in the organization's foundational agreement. Article XIII of the World Trade Agreement allows member nations, at the time a new nation becomes a member, to decline to apply the Agreement with respect to that member—to declare, in essence, that the two nations will not treat each other as fellow WTO members. As written, Article XIII permits non-application only at the outset of a new member's accession. But its presence in that context demonstrates that refusal to recognize another nation's WTO membership poses no threat to the WTO's general framework.

Immigration

Globalization's paradigm idealizes not only the flow of goods and capital across borders, but the flow of labor as well—the same principle that unconstrained flows will yield efficiency and growth is supposed to hold here as well. Likewise, finding a new balance for the American economy requires consideration of immigration, too. Labor flows respond to flows of goods and capital; American firms constrained from pursuing labor arbitrage offshore will turn quickly toward bringing low-cost foreign labor into the domestic market.

The politics of immigration, however, are quite distinct. Unlike the failed bipartisan consensus on global trade, which witnessed little debate, immigration battles have been pervasive and resulted in stalemate. Policymakers reconsidering globalization will have to overcome that paralysis, and answer the unanswered question: What is immigration policy for?

Immigration policy appropriately and inevitably concerns not just economic questions but questions about moral commitments, national character, geopolitical objectives, and more. Insofar as goals are non-economic, economic analysis will only get so far. But policymakers do have an obligation to consider the economic purposes and effects of immigration policy, and in formulating an approach to globalization they must account for immigration. A balanced immigration policy should encourage the flow of global talent into the American labor market that contributes to the nation's economic dynamism. At the same time, it should strive to maintain a tight labor market that preserves worker power and induces domestic investment in productivity growth.

U.S. immigration policy fails on both counts, to the detriment of the American workforce—including those temporary workers and permanent immigrants who join it. The current system makes heavy use of easily manipulated guestworker programs that exploit temporary workers, subjecting them to low pay and often to outright abuse (including forced labor) from which they have little protection or recourse. Employers use the programs to place downward pressure on wages, import foreign labor to compete with American workers who could do many of the jobs, and ultimately to offshore those jobs. Meanwhile, the permanent immigration system gives little consideration to economic consequences, preventing policymakers from using it to maintain labor-market balance in the long run or effectively welcome the “best and brightest” to the country.

Policymakers should immediately address abuses of guestworker programs. In the long run, policymakers should pursue an immigration system that maintains a tight labor market and tilts the composition of permanent economic immigration toward those most likely to meet critical economic needs. Giving effect to these policy choices will require the capacity for enforcement.

Level 1—Enforcement

The *sine qua non* of any immigration system is the political will and practical ability to enforce it. Achieving this, on its own, would represent major progress in American immigration policy. Enforcement methods, like immigration policy generally, raise moral as well as economic questions that policymakers must consider. But no new approach, no matter how well designed, can succeed unless it can actually be implemented.

A benefit of the focus on immigration’s economic effects is that, where labor market access is concerned, violations are jointly committed by immigrant and employer, offering better opportunities for both deterrence and sanction. Often, it is the employer who is the easier and more appropriate target. Workers who violate immigration law do so in search of opportunity. Employers do so to increase profits and avoid accountability, both by employing people illegally and making illegal or abusive use of guestworker programs. Policymakers should increase penalties for both misuse of legal immigration programs and employment of illegal immigrants, and increase funding for investigation and prosecution. A mandatory "E-Verify" system to check the legal status of new hires would both impose a clear obligation on employers to comply with the law and also provide them with the tool they need to do so.

Level 2—New Tools

American companies routinely substitute the global labor supply for the domestic one by abusing guestworker programs to displace incumbent workers while exploiting the temporary foreign labor they import, thus distorting labor markets and leaving both domestic labor and temporary workers worse off. The primary vehicle is the H-1B visa—meant for high-skilled temporary labor—which has earned the name "the outsourcing visa." There are about 600,000 H-1B holders in the United States with the number issued annually capped at 85,000. About 40% of these are issued to 30 companies, more than half of which are top outsourcing companies like Infosys, Tata Consultancy Services, and Cognizant, which use them to replace incumbent American workers with temporary foreign workers paid less than market wages and unable to change jobs. These firms also use H-1B visas to facilitate the actual offshoring of American jobs: in many cases, guestworkers now trained in a given job—often by the laid-off workers they displaced—return to their country of origin and continue performing the function for much lower wages.

The Department of Labor (DOL) and Congress should take several immediate steps to remedy this. DOL should begin enforcing the legal requirement that employers pay the wage rate paid to other similarly situated employees. This rule, intended to ensure that employers do not underpay temporary workers and thus suppress overall wages, has historically not been enforced.

If the administration does not begin enforcement, Congress must hold the administration accountable via its oversight function, and by amending the visa's underlying statute if necessary. Congress should also close the loophole that allows a "secondary employer" to hire an H-1B visa holder for a job that could be filled by an American worker, simply by hiring an outsourcing firm that is itself technically the visa holder's employer of record. Secondary employers should be required to demonstrate their need for the foreign worker before retaining the outsourcing firm to provide one.

Currently, 85% of H-1B visas are awarded to entry-level and junior workers. Preference should be given to H-1B applicants based on skill rather than lottery, tilting allocation towards those H-1B workers whose expertise employers are most likely to legitimately need. A Department of Homeland Security rule proposed during the Trump Administration that would have allocated H-1Bs by wage level was challenged in court and subsequently withdrawn. Congress should revisit the question, perhaps by requiring that H-1B visas be allocated by demonstrated skill and education levels. The bipartisan *H-1B and L-1 Visa Reform Act,* introduced by Senators Dick Durbin (D-IL) and Chuck Grassley (R-IA), respectively the Chairman and Ranking Member of the Senate Judiciary Committee, would do this.

The H-2A visa, meant to allow temporary agricultural workers into the United States, also suffers frequent employer abuse—as do the visa holders. Exploitation of H-2A workers is extremely common and the opportunity to pay lower wages and exercise increased control of employees also leads to discrimination against American workers seeking agricultural employment. The H-2A program is not subject to any statutory numerical cap and has been expanding in recent years, surpassing 200,000 visa issuances for the first time in 2019. Congress should immediately cap this program at its current levels and establish a schedule for its gradual and predictable phase-down, producing the necessary incentives for the industry to invest in raising productivity and creating jobs that Americans want to do.

In the meantime, policymakers should review the Adverse Effect Wage Rate (AEWR), which is set for H-2A workers, to ensure that those workers do not depress domestic wages or displace American workers.

Level 3—A New Balance

Assessing the labor market's needs, and a prospective immigrant's fit, is a much harder task in permanent immigration than in temporary immigration. No one knows what specific industries will require in the future, nor whether an immigrant qualified to meet a current need will stay in that field. Screening and prioritization must focus on the best available markers of potential economic contribution. Many nations evaluate prospective immigrants' potential economic contributions through a state-administered point system based on markers like education, age, language ability, entrepreneurial experience, exceptional achievements, and so on. While an imperfect predictor of individual economic contribution, such systems can perform well in the aggregate—and certainly better than a system that makes no attempt. The U.S. should adopt this approach. A points-based merit visa system has attracted support in proposals ranging from the bipartisan "Gang of Eight" immigration overhaul in 2013 to the RAISE Act, introduced by Senators Tom Cotton (R-AK), David Perdue (R-GA), and Josh Hawley (R-MO) in 2017.

A points-based system should account for a substantial share of annual permanent immigration, but an effective system would accommodate many immigrants admitted on other bases as well. Economic effects are one set of considerations for immigration policy, but not the only one. Nor does a points-based system have the only claim to supporting economic objectives. The unpredictable but quintessentially American story of the unskilled, penniless immigrant who goes on to found a successful nationwide business or make groundbreaking discoveries is an important part of the national heritage as well.

Conclusion

Policy choices guided by an ideological commitment to the unfettered flow of goods, capital, and labor produced today's globalization. Learning from the experiment's failure, policymakers can make different and better choices. Enhancing existing tools and creating new ones will help to mitigate globalization's harmful effects but will require broad and aggressive market interventions. In the long run, America's goal should be to move beyond globalization, to a system that preserves a free and flourishing domestic market, interacts with the global economy in a balanced way, and better serves the nation's economic interests. ■

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