Maybe there never was a unipower

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Summary
It is widely accepted that the period 1990-2015 was the era of the United States as “unipower,” the sole, uncontested Great Power of the world, with global hegemony. The United States certainly appeared like a unipower during the period, with numerous apparent demonstrations of diplomatic and military power. However, this paper posits that the reality was that real U.S. economic capabilities were deteriorating over this period, and thus undermining the bedrock of true U.S. power. Numerous heterodox authors in the late 1980s and 1990s forecast this economic weakening, but were derided and dismissed by the U.S. economics establishment. The heterodox authors’ predictions and analysis now appear particularly prescient. The 1990-2015 period should be better understood as the overextension of a Great Power in a more multipolar world, rather than a true, unipower era.

The argument

1. Heterodox economic authors in the 1980s warned that U.S. deindustrialization put at risk U.S. “Great Power” status.
2. The United States had the appearance of being the world’s “unipower” from 1990 until 2015 or so.
3. During this period, the reality was that U.S. industrial capabilities were weakening, while the economies of many U.S. trading partners were strengthening, as they ran merchandise trade surpluses with the United States.
4. The U.S. merchandise trade deficit likely also bought a temporary appearance of greater U.S. diplomatic and economic strength, while in reality furthering the underlying decline of U.S. industrial capabilities.

This paper does not argue that the United States could have been a unipower had it pursued different policies. (And this author has no interest in the United States being a unipower.) Instead, it argues that the United States was not the unipower that it appeared, and that the United States bought that appearance at the cost of policies that undermined its own long-term prospects.

Methodology

The argument above requires a broad view. This paper first surveys what it terms “heterodox authors” from the 1980s and early 1990s. It then performs a broad analysis of their predictions, drawing on more recent specific analyses, data, and testimony. The opinions of “mainstream” U.S. economists have often been at odds with the specific analyses, data, and testimony used in this paper. Nonetheless, this paper accepts most of these specific analyses, and so does not revisit and reassess them. Instead, it draws on them to build a larger argument. The paper provides the sources of these analyses so that anyone wishing to pursue them further may do so.

By a country's "power," this paper refers to a country's ability to defend itself and make its own decisions, at a minimum, and its ability to affect the actions of other countries, more expansively. A "Great Power" is able to extend its power outside of its own borders. This paper does not argue that the United States, or any other country, *should* be a Great Power, although it does analyze to what extent the United States has "power" or is a "Great Power."

The conventional view – the United States as 1990-2015 "Unipower"

The conventional view of the world's recent history is that roughly the period 1990-2015 was the period of the United States as the "unipower," "global hegemon," or "hyperpower." During this period, the United States emerged from the Cold War "victorious" and able to exert its influence over the entire world. During this period, no other power was able to credibly challenge Washington on any major issue.

Washington Post columnist Charles Krauthammer summed up the "new reality" as follows:

> "[o]n December 26, 1991, the Soviet Union died and something new was born, something utterly new – a unipolar world dominated by a single superpower unchecked by any rival and with decisive reach in every corner of the globe… We are a commercial republic… with overwhelming global power. A commercial republic that, by pure accident of history, has been designated custodian of the international system."[1]

Put somewhat more crudely (if no less pretentiously), U.S. Secretary of State Madeleine Albright stated that "[i]f we have to use force it is because we are America; we are the indispensable nation. We stand tall and we see further than other countries into the future."[2] And put even more crudely, in 2000, John Bolton told National Public Radio "if I were redoing the Security Council today, I'd have one permanent member because that's the real reflection of the distribution of power in the world." He continued that by that one member, he meant the United States.[3]

Chest-thumping aside, it is certainly understandable why this period is considered the era of U.S. hegemony. On the military side, the United States successfully assembled an international coalition to throw Saddam Hussein's forces out of Kuwait in the First Gulf War. The United States then successfully recovered quickly from the September 11, 2001 attacks, and went on to invade Afghanistan and Iraq (for a second time), although both occupations have been difficult. During the same period, the U.S. military has also been stationed in, and even fought in, many other countries.[4]

On the economic side, U.S. elites have pushed for global "free trade" and investment, policies included in "the Washington consensus,"[5] and have gotten much of what they asked for, including the World Trade Organization and many trade and investment agreements heavily

[1] Krauthammer, Charles. *Democratic Realism.* 2004.
[2] Albright, Madeleine quoted in Zenko, "The Myth," 2014.
[3] Editorial Board, *New York Times*, 2005. At the time of the quotation, Bolton had held national security positions in the Reagan and George H.W. Bush administrations, and later would do so for the George W. Bush and Trump Administrations,
[4] Additionally, U.S. national and international surveillance capabilities expanded dramatically. See McCoy, *In the Shadows*, 2017, pp. 120-129.
[5] Williamson, "What Washington Means by Policy Reform," 1990.

influenced, if not designed, by U.S.-based interests. Meanwhile, U.S. experts touted the United States as the world's most innovative economy, home to numerous "tech" companies that are the alleged world leaders in their fields.

In the early 1990s, the *New York Times* reported that the leaked "Wolfowitz Doctrine," an internal U.S. government memo, urged that the United States be ready to head off any major rising power, i.e., "convincing potential competitors that they need not aspire to a greater role."[6] From the official history, it appears that Wolfowitz' wish came to pass over 1990-2015. Russia struggled with its transition from the USSR, other nations seemed to copy the Washington Consensus economic model, and the United States began having an even wider global military footprint than it did before 1990, with previously-unimagined military bases in Eastern Europe and the Middle East.

The forecasts in 1990 – the heterodox authors

That one would be able tell such a story about 1990-2015 was anything but a foregone conclusion in 1990. In the late 1980s and early 1990s, when the Cold War was still going on and/or not yet clearly over, some U.S. geopolitical analysts expressed concern over the U.S. trade deficit with some Asian nations (especially Japan, Korea, and Taiwan) and to a lesser extent, with Europe. Authors writing in this genre included Lester Thurow, Clyde Prestowitz, Chalmers Johnson, Kevin Phillips, Eamonn Fingleton, Laura D'Andrea Tyson, and Great Power expert Paul Kennedy.

Broadly, these authors warned that the United States was suffering deterioration in its long-run manufacturing capacity, and so they advocated national "competitiveness" policies (such as industrial subsidies or trade protection) designed to bolster U.S. manufacturing industries and connected research.[7] These recommendations flew in the face of the neoclassical economic preference for trade liberalization – even unilateral trade liberalization –- and so this paper will henceforth refer to these authors as "heterodox authors." However, at the time, these heterodox authors were hardly on the sidelines of the policy discussions, and instead were often prominently featured in public debates.

One of the most prominent of these authors was historian Paul Kennedy. On the eve of the fall of the Soviet Union, Kennedy was already considering the possibility that the United States was itself militarily overextended and neglecting the economic base of its power. *The Rise and Fall of the Great Powers* was his classic 1987 work that explained the fall of the 19th-century Great Powers and the emergence of the bipolar powers of the Cold War era. In this work, Kennedy argued that the United States was de facto a Great Power long before 1914, due solely to its great economic strength and industrial capacity. In prior conventional "Great Power" history, the United States was not always regarded as a Great Power before 1914, likely because it did not possess a large military. Nonetheless, behind high tariff walls from

[6] Tyler, "U.S. Strategy Plan Calls for Insuring No Rivals Develop," 1992.
[7] It should be noted that these authors did not necessarily argue that the United States *should* be a global power with any particular agenda, and national "power" could certainly be defined simply as the ability to take care of one's own citizens and defend them, without projecting military power into far corners of the globe. This paper is not advocating any particular use of U.S. power, but rather simply trying to show that U.S. power over the 1990-2015 period may have a fundamentally different nature than is commonly thought, and that numerous now-dismissed authors warned of exactly this possibility.

the time of Lincoln's election, the United States had built the world's largest and most vigorous economy, by far.[8]

For Kennedy, pre-1914 U.S. economic strength gave the United States the power to create and maintain a large military, even if it did not actually have one in 1914. Indeed, Kennedy's analysis implies that the 1914 United States was almost certainly more powerful than some of the so-called "Great Powers" of 1914, including Austria-Hungary and the Ottoman Empire, and maybe even the British Empire.[9] For Austria-Hungary and the Ottoman Empire, the appearance of great military strength hid hollowed-out economies that made them, in reality, much weaker than conventionally thought, while the small U.S. military in 1914 hid its enormous economic might.

Kennedy's broad point remains an effective analytical framework.[10] Ultimately, true status as a Great Power (or even simply a power) requires an economic base. Military and diplomatic power can be symptoms of economic power. But Kennedy's history shows that military and diplomatic power can also be only veneers for a country that is actually much weaker on an economic basis.[11] And Kennedy's analysis shows how such countries without a strong economic base will ultimately lose their military and diplomatic power.

Kennedy only later touched on trade and manufacturing issues, but other heterodox authors addressed those issues directly. Lester Thurow's classic *Head to Head* warned, while the Cold War was just ending, that the United States' true geopolitical rivals in the near future would be Europe and Japan, albeit on an economic, not military, basis. Like Kennedy, Thurow described a country's military power as depending on its economic power, and forecast that the first half of the 21st century would see major economies competing with each other to acquire key industries. He predicted that this competition would not be, as free traders argued, "win-win," but rather competition in which some countries would win, and others lose. Moreover, he described the United States as needing to make the largest changes to adapt to the rest of the world,[12] rather than being the global economic role model. He based his analysis on (1) the general importance of capturing key industries, and (2) the growing

[8] Kennedy, *Rise and Fall of the Great Powers*, 1987, pp. 242-249. The tariff information comes from Benedetto, "Trade surpluses," (2014) although Kennedy also notes that international trade was a very small share of the U.S. economy in the period before World War I.

[9] Kennedy, *Rise and Fall of the Great Powers*, pp. 11-12, 216-219, and 242-249. It is important to note that the United States did not simply arrive at its Great Power economy because other countries were wrecked after World War II. First, as Kennedy points out, the United States was an economic Great Power long before even World War I. Second, even the United States' success after World War II cannot be attributed to the rest of the world being devastated by the war, as there is no mechanism for this to have happened; except for a short period from 1947-1952, the United States did not run large trade surpluses with the world before or after World War II. The United States was a high tariff nation from its inception, and especially after the election of Abraham Lincoln in 1860, that is, during its first period of great economic growth. See Benedetto, "Trade surpluses," 2016.

[10] For example, see Thirlwell, "The Return," 2010, p. 7.

[11] Kennedy's concern when writing *Rise and Fall of the Great Powers* seems to have been that a country that overextends itself militarily, or spends too much of its economic energy on its military, can undercut the very basis of its power. This paper starts from this jumping off point, but turns more to manufacturing and international trade, and their effect on a country's economic health. However, Kennedy does not necessarily discuss international trade in the same way as this paper will. Similarly, Chalmers Johnson also wrote extensively on how excessive military spending crowded out other types of economic activity for the United States, weakening the United States in the long run. For example, see Johnson, "How to Sink America," 2008. By 2002, Kennedy no longer believed the United States needed to be concerned about imperial overstretch, and had become a firm believer in the United States as an unprecedented hegemonic power. See Kennedy, quoted in McCoy, *In the Shadows*, 2017, p. 42.

[12] See Thurow, *Head to Head*, 1993, pp.16-17, 20-21, and 30-31.

economic and technological strength of both Japan and a Germany-centric Europe, and their ongoing trade surpluses with the United States.

The heterodox authors described manufacturing in particular as important to maintaining a country's wealth. Thurow and D'Andrea Tyson often focused on the importance of strategic industries to national wealth and power, and how such industries did not simply emerge from laissez-faire policies but required government involvement. Thurow described "unfettered Anglo-Saxon capitalism" as suffering numerous failures, including the loss of strategic industries to other capitalist countries with governments that were more involved in supporting their industries. D'Andrea Tyson described advantages in high-tech industries as created by governments, not "endowed by nature," and advocated that, at a minimum, countries need to engage in "defensive" trade policies to ensure that domestic industries are not destroyed by other countries' policies. In particular, she described other countries' policies as ultimately undermining the living standards of the United States, if the United States did not counter them.[13]

Other heterodox authors focused on how a broad manufacturing industry supports a country's national unity and vigor by fostering a large and prosperous middle and working class. Kevin Phillips described how manufacturing was connected to the growth of large and prosperous middle classes during the growth of 15th–16th-century Spain, 17th–18th-century Holland, and 19th–20th-century England as powers. He then further described how in each of those countries, increased financialization and an elite disregard for manufacturing led to a decrease in middle class living standards and then a subsequent and linked decrease in each country's national power.[14] Eamonn Fingleton described manufacturing as supplying well-paying jobs to less-educated workers, because it is more difficult for countries to enter industries than economists believe. He described how "creativity," de-linked from actual production, is often overestimated in terms of its ability to produce jobs and wealth for countries.[15] Thurow and Fingleton also described instances (even in the 1980s and 1990s) in which European and Japanese technology had already surpassed U.S. capabilities.[16]

Thus, in the early 1990s, the literature of the heterodox authors had laid out the case that (1) economic strength, and in particular manufacturing/research capabilities and/or a broad middle class, were important to a country's national power, (2) economic strength required trade policies and subsidies that flew in the face of conventional economic wisdom, and (3) the United States was falling behind, not leading, other prominent economies in the world on an economic basis.

The economists strike back

In the years since, *Head-to-Head* (and other works by the heterodox authors) were turned into an object of mockery for modern U.S. economic commentators. One of the most prominent opponents of the heterodox authors was economist Paul Krugman. In the 1990s, Krugman

[13] D'Andrea Tyson, *Who's Bashing Whom?* pp. 6-26, among others. Edwin Luttwak was another prominent analyst of these issues. See Luttwak, *TurboCapitalism,* 1999.
[14] Phillips, *Boiling Point*, 1993, pp. 192-215.
[15] Fingleton, *Unsustainable*, 2003, pp. 7-26. *Unsustainable* is a 2003 U.S. edition of a book originally written in 1993.
[16] Thurow, *Head to Head*, pp. 113-126. Fingleton, *Unsustainable*, pp. 245-252, and Fingleton, *Jaws of the Dragon*, pp. 70-78.

made his bones attacking the heterodox authors, as well as politicians who dared to analyze trade issues from a perspective that did not comport with mainstream U.S. economic thinking.

This paper will survey some of Krugman's responses, for several reasons. First, he was one of the most prominent (and vicious) critics of the heterodox authors. Second, his arguments are mostly representative of the arguments made by other "free trade" economists. Third, unlike many other economists (such as Gregory Mankiw) who defended "free trade," he explicitly approaches economics as a "liberal" (in the U.S. political sense), and thus, provided a veneer of "liberalism" to a position on trade policy that was opposed by U.S. labor, manufacturing, consumer, and environmental groups.

Krugman's academic work from the 1980s and early 1990s is, compared to his later policy work, relatively sober. As an economist working to integrate issues of less-than-perfect competition and increasing returns to scale into international trade economics, Krugman acknowledged that theory in these areas meant that "free trade" might not be an optimal policy, and he framed the question of protectionism versus free trade as one that must be determined empirically.[17]

However, when it came time for Krugman to argue for free trade in the policy arena, including in well-known establishment policy journals such as *Foreign Affairs*, his tone shifted. He made numerous appeals to authority- often his own, and that of other modern economists- and frequently accused his opponents of not understanding comparative advantage, which he presented almost as part of the atomic structure of reality itself. Krugman's emphasis on the logic of comparative advantage is a red herring. It is well known that comparative advantage is a logical argument; the internal truth of any logical argument has no bearing on whether the logical argument applies in the real world. Numerous economists and other observers of reality, over several centuries, have pointed out that relaxing the assumptions underlying the theory of comparative advantage can undermine its applicability to the real world.

As such, Krugman often portrayed the heterodox authors as making arguments that failed simple economic logic, when the authors did not do so (and it is difficult to believe that Krugman did not understand that).[18] Many of the heterodox authors' arguments fit within either (1) Keynesian critiques of trade theory when the world is not at full capacity utilization, or (2) arguments based on relaxing the neoclassical assumption that no industries have increasing returns to scale, nor allow capture of the next generation of products.

Regarding (1), John Maynard Keynes recognized, as do modern post-Keynesians, the importance of the neoclassical assumption that economies return quickly to full capacity utilization. Without this assumption, in a world in which there is economic slack, the logic of

[17] Krugman, "Industrial Organization and International Trade," 1986, pp. 40-47. Interestingly, Krugman also acknowledged that "the profession of international economics has a well-developed immune system [that] takes the form of an immediate intensely critical scrutiny of any idea that seems to favor protectionism." (p. 40.) While criticism is often part of a reasoned approach to any topic, particular criticism of one side over another is revelatory of an unscientific bias, and this statement might be taken as an admission against interest that the "profession of international economics" does not approach trade policy in an unbiased, reasoned way.

[18] For example, see Krugman, *Pop Internationalism*, pp. 30-33. Krugman also had a major article published in *Foreign Affairs* critiquing the common geopolitical idea that power and wealth are relative. See, for example, discussion in Thirlwell, "The Return." This author may share with Krugman an aversion to having nations compete on the basis of lowering wages in the name of "competitiveness." However, such a theme is mostly absent from the works of authors such as Thurow, Kennedy, etc., and therefore not relevant to the point of this paper.

comparative advantage does not necessarily apply.[19] In such a world, it is possible that countries would rationally compete over industries or over simply producing, and the countries that obtained the correct industries or ran trade surpluses would grow faster and gain more wealth and power.[20] In other words, if the world is not fully employing all its capital and labor to their maximum capability, then trade liberalization may not be an optimal policy, and countries that run trade surpluses may grow at the expense of countries that run trade deficits.[21]

Regarding (2), Krugman himself made his name academically examining issues of market power, increasing returns to scale, and international trade. Indeed, while Krugman expended a lot of vitriol on the heterodox authors, he also had to spend some time explaining why their analyses were not the same as his, as some of his results found that increasing returns to scale would mean free trade might not be the theoretical best option.[22] But Krugman was hardly the first economist to discover the impact of increasing returns to scale on trade policy, whether in theory or empirically. In the 1970s, famed economist Nicholas Kaldor had shown how losing industries with increasing returns to scale had led to slower growth in Great Britain after it tried unilateral trade liberalization.[23] Earlier economists, such as Friedrich List and Jacob Viner, also made similar arguments about countries needing to use tariffs to initiate or retain industries likely to have future technological advances and/or to be threatened by predatory foreign competitors.[24]

Understanding (1) and (2) allows us to see through Krugman's tactics. For example, Krugman slammed Kennedy for allegedly not understanding comparative advantage because Kennedy asked what happens if a country is the highest cost producer in all products, unless it cuts labor costs. Krugman alleged that such a question indicated that Kennedy did not understand comparative advantage.[25] However, one can also read Kennedy as simply not making the unrealistic neoclassical assumption that underlines the application of the theory of comparative advantage, i.e., that the world is at full capacity utilization, and so every country will pay for its imports by exporting something (instead of just issuing debt to pay for net imports). There is no reason Kennedy should make such an assumption. In a Keynesian worldview, the lack of full global capacity utilization, as well as seemingly irrational consumer behavior, allows countries to run a trade deficit and consume without offsetting production, exactly as the United States was doing both when Kennedy and Krugman were writing, and for several decades since. In such a worldview, Kennedy's concern is legitimate. A high-wage country in a world that is not at full capacity utilization may very well run a self-damaging trade deficit until its labor costs adjust to lower world wage levels.

Another heterodox author, James Goldsmith, made a similar argument that the developing world has a substantial unemployment problem, and so he predicted that freer trade between

[19] For example, see Shaikh, "Globalization," p. 4, Palley, "The Free Trade Debate," pp. 387-390, Felipe and Vernengo, "Demystifying," p. 54, Schumacher, "Deconstructing," Prasch, "Reassessing the Theory," pp. 424-44, and Markwell, "John Maynard Keynes," pp. 256-259.
[20] Besides this idea going back to at least Keynes, it has even been acknowledged recently by President Obama's Treasury Secretary Larry Summers, who has co-written a recent paper noting how, with "secular stagnation," countries that run trade surpluses can grow by hurting growth in their trading partners that run trade deficits. See Eggertson, Mehrota, and Summers "Secular Stagnation in the Open Economy," 2018, pp. 503-07.
[21] See Benedetto "Trade Surpluses," 2016.
[22] For example, see Krugman, *Pop Internationalism*, chapter 7.
[23] Kaldor, "The Nemesis of Free Trade," 236-40, 1978.
[24] See List, *The National System*, 1841, and *Viner, Antidumping*, 1923.
[25] See Krugman, *Pop Internationalism*, p. 79.

the developed and developing worlds would transfer the unemployment pressure on wages from the developing world to the developed world, both in terms of lost jobs and wage pressure.[26] Krugman wondered whether Goldsmith was an “intellectual lightweight” or just a “careless writer”.[27] However, Goldsmith’s critique is a legitimate Keynesian argument.[28] Krugman attempted to refute arguments like Goldsmith’s with his claim that wages reflect productivity, a claim that again depends on the neoclassical assumptions that all economies are at full capacity utilization. Time has shown that Krugman’s claim was empirically false.[29]

In another case, Krugman mocked writer and historian Michael Lind, calling Lind “clearly unwilling to invest time and energy in actually understanding” wages and productivity. Lind had argued that wages would not reflect productivity if there were always pressure to offshore jobs to countries with abundant available labor. Krugman’s response was that wage rates do reflect productivity, but at a national, not factory or industry specific level. He asserted that even if a Bangladeshi factory has wages much lower than its workers’ productivity, Bangladeshi wages will rise if overall national productivity rises.[30]

This assertion could become a convenient excuse. Anytime we observe that workers in a country’s industry are paid at wages that fall far short of their productivity, vague claims of their wages being held down by allegedly-low national productivity could be used to explain the discrepancy. Of course, Krugman’s critique ignores the other possibility- that wages only reflect productivity if labor law forces some standards of decency on employers. Wages in the developed world rose not only due to increased productivity, but also because of increased pressure from organized labor. But if there is large-scale unemployment in other countries, and “free trade,” the pressure of low-wages in those countries could obviously be used to undermine those standards. Krugman’s assertion that wages reflect long-run national productivity, with no apparent acknowledgment of any role for labor law or organization, not to mention global unemployment, is actually the claim that most beggars belief.

Settling the debate – the mainstream view

Ultimately, though, what settled the 1980s and early 1990s debate was not only Krugman’s screeds, or those of his many allies in the U.S. economics profession, but the supposed path the U.S. economy took over the 25 years after 1990. According to the mainstream economic histories, in the 1990s, the U.S. economy entered a period of strength based allegedly on

[26] See Goldsmith, *The Trap*, pp. 26-28.
[27] See Krugman, “Ricardo’s Difficult Idea,” pp. 24-25. Krugman’s complaints about Goldsmith could be read as asserting that Goldsmith’s presentation did not go through all the needed logical steps of refuting Ricardo, although such an argument exists. If so, Krugman’s argument is not so much a refutation as a plea for more detail, although the vituperative language employed by Krugman suggests that Krugman regards Goldsmith as just ignorant, and not simply skipping some logical steps. Such an implication ignores that Goldsmith’s analysis is consistent with a Keynesian analysis, the possibility of which Krugman seems to concede.
[28] For example, see economist Thomas Palley making a similar critique, with all the requisite logical detail, in “The Free Trade Debate: A Left Keynesian Gaze,” pp. 387-390.
[29] See Krugman, *Pop Internationalism*, pp. 50-66. For more information on the divergence between U.S. productivity and wages, see Economic Policy Institute, “The Productivity-Pay Gap,” updated July 2019. Krugman has admitted to this and other broad errors recently. However, he still believes that, even though he was wrong in the 1990s, it is still a bad idea for the United States to engage in any trade restrictions. See Krugman, “What Economists (including me) Got Wrong,” 2019.
[30] Krugman, “Ricardo’s Difficult Idea,” 1998.

innovation and high technology.[31] Far from falling behind other countries, the United States was the world's leader in "technology," due to the "innovation" of American business, especially in services.[32]

Nonetheless, the allegedly world-leading technological U.S. powerhouse ran continuous merchandise trade deficits with Japan and Europe over the entire period since the late 1980s, while also generally running merchandise trade deficits with Korea, and adding China and Mexico as major sources of trade deficits. Many mainstream U.S. economic commentators, though, claimed these trade deficits were no problem, an unrelated issue, or an indicator of relative U.S. economic strength, since supposedly everyone in the world wanted the dollar and U.S.-based investments.[33]

Meanwhile, according to the mainstream view, countries that the heterodox authors had warned were passing the United States were actually falling behind. Japan was supposedly mired in a multi-decade malaise, and Europe "languished" because it lacked innovation.[34] At first, in the 1990s and early 2000s, Germany was derided as a stagnant "old Europe," until its obvious economic success by the late 2000s was described as an outcome of having pursued exactly the policies that its U.S. critics claimed it had not been pursuing when they had derided it a few years before.[35] And since Japan was such an obvious "basket-case," mainstream economists argued that no one should have gotten too nervous about opening the U.S. market to Chinese imports over 2000-2015; after all, look at how wrong those Japan hysterics were.[36] China was supposed to be moving toward a market economy, and just performing "low wage assembly" while profound innovators in the United States continued advancing the boundaries of human knowledge.[37]

So according to the mainstream view, Thurow et al belong on the intellectual trash heap of history. Krugman and mainstream economists were broadly right, even if the basis of their arguments (the wage-productivity link) failed empirically. The United States became the world economic leader, advancing forward boldly while other nations stagnated. The United States produced more than ever in its more and more advanced economy, and this success was the basis for its status as a unipower.

[31] For example, see Broughel and Thierer, "Technological Innovation," 2019, pp. 22-23, claiming that the U.S. "innovation culture" has led to digital innovation having "blossomed" in the United States since the 1990s, resulting in nine of the world's top ten "most innovative companies" being based in the United States.

[32] For example, see Broughel and Thierer, "Technological Innovation," 2019, pp. 22-23, claiming that the European Union allegedly lags the United States in "innovation."

[33] For example, see Griswold, "America's Maligned," 1998, and other examples cited in Palley, "Explaining Global Financial Imbalances," 2011.

[34] For example, see Thirlwell, "The Return," p. 10. The "languished" quotation is from Broughel and Thierer, "Technological Innovation," 2019. As another example, economist Adam Posen of the Council of Foreign Relations and the Institute for International Economics has embraced such a highly critical view of both the German and Japanese economies relative to the U.S. economy. See Posen, "Unchanging Innovation," 2002, and "Is Germany Turning Japanese?" 2003.

[35] For example, see survey in Benedetto, "Can We Apply," 2011.

[36] Fingleton cites the examples of economists Russell Roberts and Jagdish Bhagwati making incorrect assertions about Japan as evidence that Americans did not need to worry about the potential negative impact of increased trade with China. See Fingleton, *Jaws of the Dragon*, 2008, pp. 70-71.

[37] For a recent example, see Andes and Muro, "China: A Manufactured Chimera," 2015. I raised questions about many of these types of arguments in 2012. See Benedetto, "Implications and Interpretations of Value-Added Trade Balances," 2012.

Is the mainstream view correct?

Substantial work has been done- both by old and new heterodox authors- showing that this triumphalist, mainstream view of large economies since the 1980s is not correct. In reality, the U.S. economy lurched through two large financial bubbles that provided an ephemeral appearance of prosperity. During this period, the U.S. economy transformed into a services-based economy with fewer and fewer "good" jobs, even as other large economies have continued to manufacture.[38] Many different works, some of which are summarized below, have helped to bolster this analysis, even as (again) mainstream economics has been late to concede, or still refuses to do so.

Asia and Europe

Regarding Japan, journalist Eamonn Fingleton and historian Ivan P. Hall have shown that Japan is actually performing well economically, and the stories of its malaise are simply not true, and possibly even encouraged by the Japanese establishment.[39] Japanese consumption of luxury products has grown substantially since the 1980s. Its current account surplus has remained high for most of the period (except for a brief time after the Fukushima disaster), and its unemployment rate never approached U.S. levels during recessions. Its infrastructure is new and advanced, based on advanced technology (like its trains[40]) that often cannot be built in the United States. Japan remains a leader in numerous manufacturing industries, and also has become a leader in industries only nascent in 1990, like robotics and nanotechnology.[41] It should also be remembered that much of the concern of the heterodox authors was over competition from Japanese firms in consumer electronics and automobiles. Japanese firms remain internationally prominent in both sectors, while the United States runs a large trade deficit in both sectors. In other words, the heterodox authors were broadly correct about Japan.

Germany too has continued on its path to a strong economy behind manufacturing dominance. Like Japan, it is well positioned in global supply chains that depend on net imports from other countries, especially the United States. It had a brief spell of stagnation in the 1990s, hardly unexpected given that it was absorbing East Germany back into its fold. But with the advent of the Euro, and the massive de facto devaluation of the Deutschmark that entailed, Germany's trade surplus exploded. Its unemployment rate has remained low since, and it boasts many of the world's top manufacturing firms.[42] The heterodox authors were broadly right about Germany.

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[38] See Alpert, Ferry, et al "The U.S. Private Sector Job Quality Index," November 2019, and Benedetto, "Trends in Manufacturing Employment."
[39] See Fingeleton, *Unsustainable*, 2003, and *Jaws of the Dragon*, 2008, and Hall, *Bamboozled*, 2002.
[40] When building a maglev train connecting Washington D.C. with Baltimore was considered in 2018, it was a Japanese company that led the effort, as there are no U.S. firms that build maglev trains. Rector, "It can be done," October 2018.
[41] Fingleton, *Jaws of the Dragon*, pp. 73-78, *Unsustainable*, pp. 192-196. See also Hill, "Don't scorn Germany and Japan," 2010.
[42] See, for example, Hill, "Don't scorn Germany and Japan," 2010. Moreover, in the 1990s, Edward Luttwak showed how the allegedly better performance of U.S. unemployment relative to European countries had more to do with lower U.S. labor standards in the service sector allowing the creation of more U.S. low-wage service jobs than European ones. See Luttwak, *Turbo Capitalism*, pp. 112-115.

So too were the heterodox authors right about South Korea, which now has a standard of living approaching or even above U.S. standards.[43] South Korea went through a sharp economic downturn during the Asian crisis of the late 1990s, following a brief period in which it had lowered its trade surplus. It appears South Korean leaders vowed not to let that happen again, and have maintained a trade surplus ever since. The South Korean economy recovered quickly from the crisis, coincident with the renewed trade surpluses. Like those of Japan, Korean companies are world leaders in many industries, including shipbuilding, consumer electronics, transportation equipment, and appliances.

China's experience, which was not much of an economic issue for U.S. commentators in the 1980s, has comported much more closely with the spirit of the heterodox authors than that of the mainstream of U.S. academic thought. China has become an economic and manufacturing powerhouse behind massive government intervention in its economy, and its massive trade surpluses with the world, most especially with the United States. In addition, it has also become a global leader in high-technology industries such as supercomputers and drone hardware.[44] In doing so, it has followed the path laid down by Japan, very successfully.[45]

Indeed, mainstream economists and commentators now worry about China and the rise of so-called "state capitalism."[46] Such a concern parallels closely the argument made by Thurow about the Japanese and German economies in the 1980s.[47] That parallel suggests that the 1980s heterodox authors were making an important point, one that was ignored or derided by the U.S. economics profession in the decades since.

In short, just as a Keynesian analysis (such as those made by the heterodox authors) would predict, major economies that have run persistent trade surpluses, especially in manufacturing industries, have been able to improve the lives of their citizens, keeping them employed and making their lives better. At the same time, these countries have been able to capture and maintain key manufacturing industries.[48]

The United States

And what of the United States? In 2015, former U.S. National Security Advisor Zbigniew Brzezinski pronounced that the era of U.S. global dominance was ending, and a more multipolar world was emerging.[49] Brzezinski's focus may have been speaking mostly of

[43] See *United Nations Human Development Report 2019*, table 3. Moreover, according to IMF data, the U.S. unemployment rate was higher than the Japanese and Korean unemployment rates over 2002-2018, and higher than the German unemployment rate over 2009-2018. International Monetary Fund, World Economic Outlook database, October 2019.
[44] For example, see former Reagan Administration official Michael Sekora, quoted in Shinal, "Trump taking wrong approach," 2017.
[45] Fingleton provides an excellent summary of the history of how China followed the model set up by Japan. Fingleton, *Jaws of the Dragon*, pp. 79-115.
[46] For example, Thirlwell cites economist Larry Summers, political scientist Ian Bremmer, and military strategist Aznar Gat. See Thirlwell, "The Return," p. 11.
[47] See, for example, *Head to Head*, pp. 32-33, in which Thurow describes the Japanese and German economies as "communitarian" capitalism.
[48] Obviously, every country in the world cannot run trade surpluses, a problem that makes international trade negotiation interesting. Denying that such a problem exists, though, does not help solve it.
[49] Brzezinski, "Toward a Global Realignment," April 2016. Whether the United States is overextended militarily is an issue beyond the scope of this analysis. Nonetheless, it is certainly easy to believe that any country that lays claim to lead the vastness of planet Earth as a sole superpower, when it only contains a small percentage of the world's population, has its work cut out for it. What this analysis does

military affairs, but the economic base of the United States was also being questioned, even by mainstream economists (if only after being caught unawares by the 2008 financial crisis). As early as 2010, President Obama's Treasury Secretary, Lawrence Summers, who had once pronounced the heterodox authors wrong, was acknowledging that U.S. economic competitiveness was a concern, although he was still "optimistic."[50]

For those of us who have lived in the United States since at least the 1980s, such pronouncements were hardly surprising. A simple drive across the country in the late 2000s showed vast swathes of the country have gone from being independent, confident, and patriotic communities in the 1980s, to run-down, strung-out, wrecks with boarded up Main Streets, few good jobs, and a big box store outside of town, selling products that used to be made in the United States and sold on Main Street, and are now instead made in other countries (by people, not robots).[51]

No one disputes that over 1990-2015, U.S. manufacturing jobs and the number of factories fell, and especially dramatically after 1998. According to the mainstream story, though, since the data on U.S. real value-added in manufacturing data show a rise over the period, the employment and factory losses are due to a growing U.S. manufacturing sector that is very productive, and thus needs fewer factories and less labor.

This mainstream story has been debunked. Even the official value-added data show that U.S. real manufacturing value-added slowed to nearly no growth in the late 2000s. Moreover, a closer look at the official data also shows that about half of U.S. manufacturing sectors were shrinking, and only computers and electronics production (a U.S. manufacturing sector that was shrinking in nominal dollars) actually grew significantly in "real terms," because of statistical adjustments. Most importantly, more in-depth analysis has shown that mismeasurement of import prices in the official data are likely misleading for various statistical reasons, and the U.S. manufacturing sector overall may actually be shrinking.[52] And still other scholars have shown how U.S. economic data estimates the effect of "technology" to be far higher than other countries do, making U.S. economic growth appear to be higher for no other reason than different statistical methodologies used in different countries.[53]

In other words, in reality, it is likely that the value-added story matches the employment and factories story, and actual U.S. manufacturing capability has been lost. Very late, even some mainstream economists are even beginning to realize the extent of the damage done to U.S. manufacturing employment by net imports.[54]

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address is the issue of whether, in pursuit of that goal, U.S. elites have forced through policies that led to the deterioration of U.S. strength, which was always based on its industrial capacity and broadly-shared wealth. Likely, the problem for U.S. elites is that their vision of the world leads to undercutting the very basis of the strength they inherited in the first place.

[50] Fox, "The Growing Consensus," 2010.

[51] See the cited works of Chris Hedges, as well as his other writing, for more poetic descriptions of this reality.

[52] Atkinson et al, "Worse than the Great Depression," 2012, and Atkinson and Nager, "A Critique," 2015. In particular, Susan Houseman of the Upjohn Institute has done multiple in-depth analyses of the U.S. data on manufacturing. Her analysis has shown how data actually show a real decline in most sectors, and how some official data may be overestimating U.S. manufacturing output. See her analysis and survey in Houseman, "Understanding the Decline of U.S. Manufacturing Employment," 2018.

[53] For example, see Fix, Nitzan, and Bichler show that the United States uses a statistical deflator that results in a substantially higher estimate of computer output growth than the deflator used by Germany and Japan. Fix et al, "Real GDP: the flawed metric," 2019, p. 55.

[54] For example, see Acemoglu et al, "Import Competition and the Great U.S. Employment Sag," 2014, and Autor et al, "The China Syndrome," 2012.

On the broader employment side, the U.S. economy no longer provides a large pool of "good" jobs with pensions and affordable health care, jobs it could provide to a larger portion of its population in the 1970s.[55] This problem is not as severe, or is even nonexistent, in the economies of major U.S. trading partners. The U.S. unemployment rate was higher than the Japanese and Korean unemployment rates over 2002-2018, and higher than the German unemployment rate over 2009-2018.[56] U.S. life expectancy is lower than life expectancy in many European and East Asian countries.[57] U.S. inequality is much worse than that of Japan, Germany, most of Northern Europe, and Korea.[58]

If the economies of these countries were not keeping up with U.S. growth (as mainstream economists contend), where is the evidence in terms of employment, or U.N. human development rankings, or in terms of global industrial leadership in electronics, transportation equipment, and robotics? Is the whole argument that the United States is growing faster based on different statistical methods used, or the large U.S. financial sector?

Of course, one could argue that these relative U.S. economic problems are not due to dismissing the prescriptions of the heterodox authors. Indeed, some modern mainstream economists might admit the problems, but deny that the problems have much to do with trade policy, and instead result from other policy failures. These denials fail on three grounds. First, as economist Susan Houseman has catalogued, even the analytical results of many mainstream economists have shown that there have been large negative effects on U.S. manufacturing employment from U.S. trade policy.[59] Thus, stating that trade policy has been a substantial contributor to the problems does not mean it has to be the only contributor. Moreover, mainstream economists' analyses of the effects of trade policy on manufacturing employment are not always complete, as they may be limited to one or two effects (such as direct employment in manufacturing), and not take into account the effect that trade policy has had on labor bargaining ability, community employment, or wages.

Second, the denials are a straw man anyway. While there may be a few U.S. "ivory tower" liberals who call for New Deal style policies along with lots of unilateral trade liberalization, these are not the people who led the United States over 1990-2015. The U.S. establishment has pushed free trade as part of a broader neoliberal strategy that included financial deregulation, dismantling New Deal programs, keeping antitrust law weak, and unilateral trade liberalization. In the real world, trade policy has been part of, not separate from, the broader U.S. establishment goals over 1990-2015.[60]

Third, the economists' argument is simply that unilateral trade liberalization has been good for "consumers," not necessarily the power to maintain and defend ones' country, not to mention any more grandiose military goals outside one's own borders (goals this author usually does not share). Moreover, the ability to provide citizens with a broadly high standard of living is not well accomplished by gutting millions of working class jobs in order to shovel cheaper imports into the arms and maws of disproportionately upper middle class consumers.

[55] Alpert et al, "The U.S. Private Sector Job Quality Index," 2019.
[56] See International Monetary Fund, *World Economic Outlook Database*, October 2019.
[57] See United Nations, *Human Development Report 2019*, table 1.
[58] See United Nations, *Human Development Report 2019*, table 3.
[59] Houseman, "Understanding the Decline," 2018.
[60] "The Washington Consensus" for example, includes both free trade as well as goals such as "deregulation." See Williamson, "What Washington Means by Policy Reform," 1990.

The 1990-2015 United States was a somewhat hollow great power – military and diplomatic power masked a weakening economy

Accepting the heterodox analyses above, it becomes clear that, since 1990 or so, the United States has lost manufacturing jobs and capabilities in a way that some of its trading partners have not. Thus, there is a case to be made that the United States has moved toward becoming the economic hollow that the heterodox authors warned it would be. Its economic "strength" now lies in financial services and software, in media and non-renewable natural resources. The stories of the United States being the most innovative and high-tech economy in the world are overdone. Much of its infrastructure crumbles, many of its people are dispirited, and the country could not survive economically independently anymore. The great manufacturing base – once a major source of the population's high morale and the military's strength – is significantly diminished.

There is a national security cost to these failures. A country united as a nation, in which the vast bulk of the population feels pride and loyalty to its traditions, and some basic trust in its institutions, is far stronger than one in which the citizens can see in their infrastructure, jobs, and health care that their elites, at best, do not value them.

Imagine taking on United States militarily in the 1970s or 1980s. Beyond direct military issues, U.S. infrastructure was world class (if beginning to slip). The United States did not depend on any other nation for any manufactured product. U.S. distribution and communications networks were fragmented and atomized, the luxury of a society with a government that at least somewhat trusted its own people (unlike the government of the USSR). And so those networks would have been difficult to bring down completely, as there were fewer central hubs to disable. Most of the U.S. population believed in the United States as an ideal and as a nation, even if they had some criticisms of important policies. To wreck such a country would require an overwhelming blow (like a massive nuclear attack).

But imagine trying to do so now. The United States is a dispirited, economically- fragmented country, with an elite that hides behind gates and walls, afraid of a large chunk of the population that suffers addiction to opioids and abandonment to offshoring.[61] And ostentatious cheerleading aside, it is unlikely the world wants to be the United States. More likely, they look to the countries that are actually economically vibrant, ascending, and engaged in large infrastructure projects, especially China.[62] And they probably know that Japan is not the "basket case" that the U.S. media describes it as.

In short, while United States has military bases spread across the world, the United States has been steadily reducing its ability to provide a decent living for its people or offer a solid economic base that one would expect for a Great Power. Nor did this hollowing start last year or even five years ago.

In other words, the decline in U.S. manufacturing is correlated with the decline in the broad-based wealth of the United States, and its inability to maintain the kind of vibrant, confident, citizenry it had in the past. Such a finding is entirely consistent with the forecasts and warnings by the heterodox voices of 1980s and early 1990s such as Thurow, Goldsmith,

[61] For a clinical description of this problem, see Venkataramani et al, "Association of Automotive Assembly Plants," December 2019. For more poetic descriptions, see Hedges, "The End of Empire," 2017, and "The World to Come," 2019.
[62] See Kadri, "Neoliberalism vs. China," 2020, and McCoy, *In the Shadows*, pp. 196-198 and 238.

Kennedy, and others. And it is a refutation of the mainstream economists of the same period, who often shrilly derided those heterodox voices.

The United States bought the appearance of unipower by engaging in the very policies that weaken its long-term economic and political strength

Perhaps most importantly, the U.S. appearance as a unipower may be related to its real-world decline. The United States may have been buying its global influence- whether military bases or diplomatic support- by allowing other countries unfettered access to the U.S. market. There is substantial documentation that this "trade" actually happened.

Historian Alfred J. Eckes described numerous examples of U.S. diplomacy taking a more important role than commercial policy in post-World War II U.S. trade negotiations. For example, he characterized U.S. trade negotiators as viewing a goal of the Kennedy Round trade negotiations as strengthening the European Commission in Brussels, a goal that frustrated U.S. commercial interests.[63] Eckes also described President Nixon as using trade concessions to entice diplomatic cooperation from the USSR and China.[64] Eckes documented efforts by the State Department in the 1940s and 1950s to ensure that U.S. Tariff Commission appointees were sympathetic to State's negotiating position of using market openings to pursue diplomatic initiatives.[65] Similarly, historian Michael Lind described U.S. authorities during the Cold War as turning "a blind eye to mercantilist trade practices that unfairly harmed U.S. industries – practices that were both blatant and highly successful."[66]

In terms of direct testimony from participants, Clyde Prestowitz, a former U.S. Commerce Department official in the Reagan Administration, described 1984 attempts by Commerce Department officials to put pressure on Japan over semiconductor trade as thwarted by U.S. military officials concerned about needing military bases in Japan.[67] United States Trade Representative (USTR) negotiator Glen Fukushima has written of the conflicts between USTR and the U.S. State Department during the 1980s and 1990s over how to deal with Japanese officials. He described the State Department as viewing the U.S.-Japan relationship as harmonious, and not wanting to share information with USTR, even as in one case, USTR and State were negotiating with the same individual Japanese official.[68] And Paul Volcker, former Chairman of the Federal Reserve and a political appointee in the Kennedy, Nixon, and Obama administrations, recently stated that, for many years, allowing trade concessions to allies was part of a process that "oiled the wheels of our foreign policy, building a whole network of allies… The top dog pays the price."[69]

Assume such government policy continued in the 1990s and 2000s. Now combine the heterodox authors' analysis of the status of the U.S. economy with documented examples of

[63] Eckes, *Opening America's Market*, pp. 199-201. See also pp. 159-166, 230, 265 (among many others) for discussion of State Department and U.S. policymakers' pushes for opening the U.S. market for imports in exchange for diplomatic goals, and pp. 238-240 for a discussion of the Eisenhower Administration's policy of avoiding tariffs on Japan in particular. Also, see examples from Prestowitz, *The Betrayal of American Prosperity,* pp. 91-92.
[64] Eckes, *Opening America's Market*, pp. 211-212.
[65] Eckes, *Opening America's Market*, pp. 227-230.
[66] Lind, "Cold War II," May 2018.
[67] Prestowitz, *The Betrayal of American Prosperity*, pp. 101-102.
[68] Fukushima, "No Double View," 1996.
[69] Childs, "Former Fed Chairman Blasts McKinsey," December 12, 2018.

U.S. policymakers exchanging trade concessions for military and diplomatic goals, and one can consider the following alternative overview of the 1990-2015 period.

An alternative interpretive possibility

Perhaps instead the 1980s heterodox authors were on the right track. Right before the end of the Cold War, the world consisted of two Great Powers (the United States and the Soviet Union) and two or more other large powers (Germany/ Europe, Japan, and maybe Korea).

By the early 1990s, the Soviet Union had broken up, and the United States was able to use its large military, and the diplomatic support of many nations, in a war against Iraq. Whatever one thinks of the morality or the strategic effectiveness of that war, its execution appeared impressive.

Nonetheless, underneath the surface, U.S. military spending of the 1980s had also had a price in terms of a decreased economic strength for the United States, and the “friendship” of so many nations had been purchased in part by allowing them to run trade surpluses with the United States, surpluses that hurt U.S. manufacturing capabilities and the breadth of high U.S. living standards. The United States was weaker than it appeared.

Compounding the difficulties, the United States then accelerated a series of economic policies it had not tried since before the New Deal: financial deregulation, weak antitrust law, weak labor law enforcement, and a trade policy of unilateral liberalization to a degree that the country had never tried before in its history.[70] These policies continued eating away at the true heart of American strength (its industrial economy and broadly-high standard of living), but this decay was covered up by two successive financial bubbles, first in stocks (in the late 1990s) and then in housing (in the 2000s). This cover-up allowed the illusion of American hegemony to continue. Persistent trade deficits, while internally weakening the United States’ real economy, allowed continued foreign diplomatic support of U.S. military initiatives.

Meanwhile, the other, regional powers pursued a wise strategy of diplomatic cooperation with the United States while securing trade benefits that placed them in control of key industrial markets in which U.S. producers lost market share- even in the U.S. market. As described above, this policy has been a relative success for these nations, which have become wealthier in a way the United States has not.

Counterfactual – What if U.S. had tried to balance trade, keep broad-based wealth and build infrastructure?

To see the importance of U.S. trade and industrial policy in this history, consider the following counterfactual. What would have happened if, in the late 1980s and early 1990s, as the USSR was splintering, the United States had followed the advice of the 1980s heterodox authors and pursued a policy of resolutely and unilaterally (if necessary) balancing its trade deficit while supporting its manufacturing sector? Certainly, one could imagine that Asia and Germany would simply have accepted the loss of their annual trade surpluses with the United

[70] For example, see Palley, *From Financial Crisis to Stagnation*, 2012, pp. 5-14, 26-56; Smith, *Econned*, 2010, pp. 124-158.

States, admitted it was not very sporting to have run such surpluses in the first place, and continued to be firm diplomatic supporters of the United States.

Of course, such a possibility is highly unlikely. Since Japan and Europe were running trade surpluses with the United States, they could not have retaliated (on net) through a trade channel, had the United States used trade restrictions to demand an end to trade deficits. However, they could have retaliated through two other channels: first, by restricting U.S. investment in their nations; and second, by not cooperating with U.S. diplomatic initiatives. Policy elites in those nations might have begun to support some of their population's demands for reducing U.S. bases, and for not joining U.S. military coalitions. Efforts by U.S. policy elites for the “Washington Consensus” would not have found as much cooperation if balanced trade with the United States were a condition. Even for nations like China, which may not have always joined U.S.-led coalitions or implemented promised investment laws, the constant (and very large) benefit to its economy from its trade surplus with the United States likely restrained it from criticizing U.S. policy more forcefully. And U.S.-based multinationals would not have been able to open so many affiliates overseas, nor pressure U.S. labor for concessions with the threat of offshoring.

In exchange for this loss of influence, the U.S. economy would have had no excuse to do worse than it did before the 1980s. (In the period from 1952-1980, international trade was a very small share of the U.S. economy.) Thus, we can reasonably expect that the United States would have maintained a large manufacturing base and a relatively broad middle and working class. Arguably, with no trade deficit, and more manufacturing, U.S. innovation would have been focused more on manufacturing and less on software and financial shenanigans, leading to broader and more sustainable growth than the U.S. economy actually experienced.[71]

In other words, the United States right now would be a more stable country with a healthier economy, and even a better ability to sustain its “power” in the long run, at least for truly defensive purposes. By implicitly encouraging (without pushing) more sensible, less dogmatic, economic policies, it might have even inspired broader global growth. However, it would not have looked like the “unipower” of the 1990-2015 years. It would not have found as much diplomatic support as it did for its military operations across the globe. It would not have been dictating diplomatic and economic policy to the world, and it would have had significantly more complicated diplomatic issues with Japan, South Korea, Europe, and maybe Canada and Mexico as well, throughout the entire period.

The counterfactual allows us to see the real choice the United States faced in the early 1990s. By choosing to appear like a unipower, when it did not have being a unipower as a real option, it ultimately undermined its own long-term prospects, even as just a power.

[71] Yes, there are many economic studies that purport to measure what would have happened if the United States had not joined this agreement or that agreement. In general, these studies claim to measure the effects of U.S. tariffs, which were already low. They do not consider (1) that the United States could have used many kinds of trade measures to counter constant trade deficits with other nations, including for reasons of currency and (2) many times, the signing of a trade agreement is a signal of commitment by the United States not to raise tariffs, so it could encourage firms to feel more comfortable in setting up a business model of importing products into the United States.

Conclusion

In the 1980s and early 1990s, mainstream economists railed against heterodox economists and non-economist thinkers for questioning the appropriateness of "free trade" and for advocating national industrial policies. The debate was resolved, at least among the arbiters of acceptability, in favor of the mainstream economists. And yet, the heterodox arguments ring now like the unheeded warnings of prophets, while the mainstream economic view looks more and more debunked by reality.

The appearance of the United States as a unipower over 1990-2015 depended on policies that damaged the future of the United States and hurt a large segment of its population. It is likely that even during 1990-2015, the United States was never really a unipower. It was a very powerful Great Power that lived beyond its means, selling off the seed-corn of its past, in order to have the appearance of being far more powerful than it really was. Other nations engaged in a "rope-a-dope" strategy of staying out of the U.S. way, or appearing to fall into the ropes exhausted, while in reality building their strength.

The policy implications of such a conclusion should also be clear. Since the United States was never really a unipower, then it should certainly not be behaving like one now. Its policies should be to restore its own industrial economy and balance its trade, so that its own people's living standards and infrastructure can again be world class. To do so, some alliances will need to go through deep and painful adjustments. Military bases in foreign countries may need to be shuttered and the troops relocated to U.S. soil. Diplomatic initiatives may need to be abandoned, and the United States may need to accept that some countries on the other side of the earth, that border each other, may wish to develop closer relationships with each other than they have with the United States, and do so on their own terms. And of course, the adjustment back to a balanced trade will present short-term adjustment pain for the U.S. economy.

There are many examples of nations past and present accepting the limits of their reach and thriving in the aftermath. Rome under Hadrian and Trajan slowed expansion and focused on internal infrastructure. It lasted another 300 years in the West. Similarly, many European nations with extensive colonies pulled back from those colonies after World War II. They recognized that they were no longer going to be able to hold other nations under thrall, and their own nations' citizens benefitted greatly from ceasing to try to do so.

However, recognizing reality will require reexamining the belief that mainstream economists' views on international trade are beyond question. Instead, the heterodox authors of several decades past were Cassandras whose counsel should no longer be ignored.

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