

Remember the Magnequench: An Object Lesson in Globalization

In spring 2008, Senator Hillary Rodham Clinton mounted a quixotic but remarkable comeback in her battle for the Democratic presidential nomination against Senator Barack Obama. Although it ultimately fell just short, part of the success of her resurgent campaign was a tilt in her message from policy to populism. Tapping into the hopes and insecurities of the U.S. public, she repositioned herself as champion of the “forgotten” middle class, focusing her message on pocketbook issues, jobs, and popular anxieties about globalization.

While campaigning in Valparaiso, Indiana on April 12, 2008, she dropped what, for Indianans, was a populist bombshell: “We’ve got to elect a president who’s going to remember Magnequench.” While hardly a household name, Magnequench is a company with North American and Chinese ties that once built industrial rare-earth magnets in a factory in Valparaiso for use in a variety of electronic applications, including guidance systems for the precision-guided missiles or “smart bombs.”¹ When the Valparaiso plant closed in 2006, it seemed to perfectly illustrate the problems inherent in globalization that resonated so well with Clinton’s resurgent audience. The Valparaiso factory had long been engaged in making a sophisticated product with national security implications. After the factory’s owner sold the plant to Magnequench, a firm with direct links to the top echelons of the Chinese Communist Party, the new owners supposedly had plundered the company’s technology, shuttered the factory, and put 225 hardworking Americans out of work, their jobs apparently sent to China. All that was needed was a culprit,

Charles W. Freeman III holds the Freeman Chair in China Studies at CSIS and may be reached at cfreeman@csis.org.

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and that was easily found in the globalization-friendly George W. Bush presidency, fiddling idly while Indiana jobs burned.

Yet, Clinton's invocation of the hard-luck Magnequench story backfired. The plant had actually been sold to Magnequench in 1995 and approved by the Committee on Foreign Investment in the United States during the Bill Clinton administration. So the culprit, it seemed, may not have only been the current administration, but also her husband's. The Obama campaign quickly seized on the incident as another example of

Clinton's "Washington game-playing" while the McCain campaign predictably remained silent.²

Unchallenged in all this was the assumption that a terrible wrong had been perpetrated. Not only were 225 Indiana residents robbed of their jobs, but U.S. know-how was lost and national security compromised. China, the poster-child for the evils of globalization and a rising power about which the U.S. public is ambivalent, had gained and the United States had lost. Clinton's essential message was unquestioned: a responsible government would not allow the affair to be repeated.

The Magnequench story is rich in symbolism. In the lexicon of U.S. economic populism, the loss of manufacturing jobs in the U.S. heartland is synonymous with U.S. decline. The purchase and subsequent closure of the Valparaiso factory by Chinese interests confirms all the worst popular suspicions about China's designs on U.S. technology and the lack of fairness with which China competes on the global stage. The hollowing out of a U.S. industry, whose products are used in military applications, to a potential rival like China raises hawkish ire in even the least alarmist members of the U.S. public. Similar to many urban legends of globalization, however, the Magnequench story contains as much fable as fact. Closer inspection shows that the many conjured bogeymen are far less real or fearsome than they first appear. Indeed, the story illustrates the cyclical nature of market economics more than some unique failure of the U.S. economy—or of political leadership.

It may seem quaint, in the wake of the government absorption of Fannie Mae and Freddie Mac and the \$700 billion bail-out package for failing Wall Street firms earlier this fall, to note the virtues of the market economy. Indeed, many in the press and public have derived the lesson from recent events that markets are inherently untrustworthy.³ Yet, blaming globalization or the marketplace for the sub-prime mortgage crisis and its subsequent fallout is to excuse the market interventions and other negligent behavior of a generation

of policymakers that sent a simple but radically distortive message to global markets. That message was that the U.S. Government would guarantee the rights of Americans to own homes and access credit far beyond their ability to afford those goods in the free market. That a generation of obliging bankers and inadequately skeptical investors were complicit in this assault on market economics shouldn't surprise anyone. Neither should the fact that some firms failed while competing in the Frankenstein's financial market that resulted. Such is the rough-and-tumble nature of competition. Yet the public debate on these firms' failure largely surrounds naming a culprit—was it greedy bankers or feckless regulators?—rather than recognizing that their failure is in large part a natural phenomenon and might have important benefits. Better allocation and exploitation of the resources that had previously been within the control of these firms would be the natural result.

The underlying message of both the bail-out and the story of Magnequench, as presented by Clinton, is that economic adjustment is something terrible, necessarily the result of deliberate malfeasance (Chinese competition), recklessness (rapacious financiers), or negligence (asleep-at-the-switch regulators). The resulting witch hunt in the cause of protecting a damaged public may be politically cathartic, but burning a witch to satisfy the urges of a nervous and vengeful public may not yield the best policy result. Similarly, in the case of Magnequench, the pain of those harmed by the closure of the Valparaiso factory, the 225 Indianans who lost their jobs, is very real. Political leaders of every stripe undoubtedly share a genuine desire to correct the problems that lead to the pain of these and other similarly affected middle-class families. A national diagnosis motivated by fear and a desire to mete out blame, however, is not likely to yield ideal effective policy prescriptions, even if the politics of fear and blame play well with a scared and rancorous public. Even as a new administration struggles with putting the nation's financial house in order, what should it diagnose and prescribe for the forgotten middle class's economic woes? The crunch they are feeling is more than just about credit.

I'd Like My Job Back, Mr. Wang

It is tempting to equate closing a U.S. factory with the decline of U.S. power, and perhaps even the transfer of that power to a potential rival like China. A fundamental tenet of U.S. economic populism is the sanctity of the manufacturing job. Since the late 1940s, when the United States' wartime industrial machine was converted to civilian use, the legendary prowess of U.S. manufacturing as a relentless innovator and reliable employer has been an essential feature of political rhetoric cataloguing U.S. greatness.

The U.S. is Not Just a Manufacturing Economy, Stupid

In the early 1950s, one-third of Americans were employed by the manufacturing sector. The rise of the U.S. middle class coincided with the heydays of U.S. production. When World War II ended, the United States had \$140 billion in the bank, controlled two-thirds of global production capacity, and had the lion's share of energy and natural resources at its disposal. It had little if any competition, and had little if any need or desire to import goods from abroad. For example, the "Big Three"—General Motors, Ford, and Chrysler—produced virtually all the new automobiles sold in the United States through the 1950s. Bolstered by the gains secured by the U.S. labor movement, factory jobs were secure, plentiful, and produced incomes that grew each year. Manufacturing was the backbone of the U.S. economy and working in a plant was a one-way ticket to the American Dream.

These days, there are many shadows, real or imagined, across that dream. Many of those shadows emanate from the Eastern part of the globe. Fundamental to the theology of many U.S. globalization skeptics is the concern that the United States is losing manufacturing and other steady-paying jobs to China. In the Magnequench case, for example, Clinton and others proffered that the Valparaiso factory was closed and "the jobs moved to China." The statement conjures an image of a laid-off worker in Indiana having had his rightful life transferred to a counterpart in China—as if there is a factory worker in China who now has *his* job and is taking food off *his* table. Yet, the portrayal of the one-for-one exchange of jobs and facilities rarely plays out in such a zero-sum way, suggesting that another factor must be at work.

Productivity is part of it. The quest for more units of output with fewer working hours is a cornerstone of competitive business strategy. The U.S. economy has been highly productive, particularly in recent years. Since 1987, average productivity growth has outstripped the growth of Gross Domestic Product (GDP) by 0.66 percent. In the last 10 years, productivity growth has outstripped GDP growth by 1.2 percent.⁴ The United States is creating more output in less time, and due to technology, fewer people are needed to produce the extra goods and services.

The increase in productivity has a direct impact on manufacturing employment. Despite the front-and-center position of manufacturing in the U.S. psyche, the manufacturing sector has been declining as a leading source of employment since 1947. While the overall U.S. population has more than doubled in the last 60 years, growth in manufacturing employment was effectively zero until 2000, and has declined in the years since. In 2008, less than one in ten Americans is employed in manufacturing (down from over three in ten 60 years earlier), and only 6.7 percent of working Americans is engaged in manufacturing "production."⁵ Manufacturing output, however, continues to

grow and has remained a relatively constant percentage of U.S. economic output for the past 60 years.

The landscape of U.S. manufacturing folklore is pockmarked with rusting factories and empty, windblown industrial parks. It may be easy to be nostalgic for the days of Guardian Frigidaires, RCA Shelby sets, and Simplicity Safety Wringers, but the U.S.-made refrigerators, televisions, and washing machines that were a proud feature of the 1950s American home ceased to be made in the United States long ago. Most of the products that the United States imports from China are not displacing U.S. manufactured goods. Rather, they are replacing goods that were more recently imported from other East Asian economies like Japan, South Korea, and Taiwan.

The manufacturing sector has been declining as a leading source of employment since 1947.

The Chinese Stalking Horse

Trade with China is an easy target for critics of globalization because of the breathtaking annual growth in the U.S. bilateral trade deficit and the coincidence of a decline in manufacturing employment growth since 2000. Bilateral trade with China, however, should be considered in a broader context: the extraordinary integration of East Asian economies and the degree to which China has become a key link in the global supply chain for these economies. China is now East Asia's main processing and export hub to the rest of the world, including the United States. Much of the bilateral trade deficit with China is buried in the resulting shift in trade patterns with East Asia.

It is a fact that imports from China have grown over five times in 10 years (from \$63 billion to \$322 billion) and now account for 16.5 percent of all imports into the United States (up from 7 percent ten years ago). Chinese imports now equal 48 percent of those from East Asia. Yet in dollar terms, imports from East Asia over the last ten years have remained fairly constant as a percentage of total imports, slightly decreasing from 37 percent to 34.5 percent, and have grown only marginally as a percentage of GDP (from 4 to 5 percent). If jobs are being lost to China, there seems to have been relatively little macroeconomic effect that can be measured in a zero-sum way. In fact, for most of the past ten years, employment has been at or near 95 percent, the economic textbook definition of "full" employment.

In July 2008, the Economic Policy Institute (EPI), a Washington-based organization supported by the Alliance for U.S. Manufacturing, put forward a provocative study of manufacturing jobs lost to China.⁶ The study concludes that the United States has sent 2.3 million jobs to China since 2001—the year

China joined the World Trade Organization and was granted Permanent Normal Trade Relations status (PNTR—the same tariff and other trade law treatment as other unrestricted trading partners) by the U.S. Congress. The EPI study posits that the manufactured imports from China since PNTR could have been substituted by goods manufactured in the United States. The study also contends that the U.S.–China trade relationship during this time caused the loss or displacement of 2.3 million jobs between 2001 and 2007, and that the average loss per worker/year was \$8,146, with these losses totaling \$19.4 billion in 2007.

The study is an eye-opener in part because it assumes an inexhaustible appetite and budget in the United States for products made in China. If imports from China were curtailed and production shifted to the United States, the American public would have to be willing to pay \$19.4 billion, or an additional \$174 per household *in labor costs alone*, for the products in the volumes they have been buying from China.⁷ There is no doubt that many of the products imported into the United States from China could have been made in factories employing hardworking Americans. Yet, how many “made in the U.S.A” toys, televisions, and tambourines would (or could) hardworking Americans buy at the higher prices they would command if produced at home? And would producing these products really be the best and most time-efficient use of the 2.3 million Americans that would have to be deployed?

The U.S. middle class has a strong affinity for manufacturing and tends to think of the production of manufactured goods as a higher form of economic activity than others. In truth, disaggregating manufacturing from other activities is a somewhat illusory process. Economic activity, after all, is the production and distribution of goods and services at all levels. Using Chinese or other foreign labor to produce goods and services is like importing inputs used to make other, final goods, when those inputs might instead have been produced domestically. U.S. labor is thus freed up for other forms of economic activity.

Looking Beyond Employment

Given the integration of East Asian economies, a study that looks purely at the bilateral trade relationship is also ultimately incomplete. Perhaps the question “How many jobs is the United States losing to Chinese workers?” essentially posed by the EPI study should be broadened and less artfully, but more accurately, rephrased as “What are the job implications of recent flows of goods and services to and from the United States?” An August 2005 study by the New York Federal Reserve of U.S. jobs gained and lost through trade measured the net job losses from trade, and concluded that the current number is not more than 2.4 percent of total employment.⁸ In addition, this number is in constant flux, sometimes positive and sometimes negative, suggesting that “trade does not necessarily mean a loss of jobs for the United States.”⁹ The New York Fed study

also did not address the broader wealth-creating effect of trade, which ultimately overwhelms whatever negative impact it has on the economy.

It does, however, note that the specialization of labor as a direct result of international trade has been a net economic benefit for the United States:

Since the United States has the highest rate of international patenting per capita in the world, it can be thought of as specializing in product innovation, the first phase of the [production] cycle. Once a product matures, however, the United States loses some of its comparative advantage in producing that good. The country's highly skilled workers may be too expensive to be internationally competitive in the routine production of many commodities. Thus, when a product or service becomes a commodity, the most routine jobs involved in its production may be sent overseas.

Subsequently, competition among producers lowers the price of the commodity, raising the purchasing power (or wealth) of consumers and thus their demand not only for that good but for others. This process is the source of new jobs for the U.S. workers displaced when jobs go overseas. As wealth increases and demand grows, these workers can find employment elsewhere in the economy and perhaps move on to the design and creation of the next new product. Seen in this way, the country's ability to continue sending jobs overseas may be, at least in part, a sign of its ongoing success in innovation.¹⁰

All that economic success may be of little consolation to the 225 Americans left unemployed by the closure of Magnequench's Valparaiso facility. By 2003, however, the innovative and highly profitable venture of producing neodymium magnets had become routine and the magnets had become commodities. In fact, when the Indiana plant closed, Magnequench ceased production of magnets altogether, whether in the United States or China, focusing instead on the more profitable and less-commoditized activity of innovation and design of rare earth powders used in such magnets.¹¹

With respect to Magnequench's story, the focus should not be on the end but on the beginning. The Valparaiso plant was actually a creature borne of international trade. Originally a facility of IG Technologies, a division of the venerable Indiana General Corporation, the factory was purchased by a French company in 1989 with the express purpose of producing neodymium magnets that were the collective innovation of France's Pechiney and Japan's Intermagnetics Co., Ltd.¹² Valparaiso's workers, therefore, may have been victims of globalization in the end but they also had been early beneficiaries. In the harsh, rough and tumble world of economic competition, the factory had a good fifteen year run before the unique equation of the neodymium magnet market dictated that its run was over.

What Really Matters

A far more critical question about China is the prevalence of intellectual property right (IPR) violations that directly cut into profitability and competitiveness of

Today, the service sector has become the employer of nearly 90 percent of Americans.

U.S. companies. Some of those violations are through simple piracy, some are through reverse engineering, and some are through organized industrial espionage activities. If, as the New York Fed suggests, the United States is “specializing in innovation,” the failure to curtail international undercutting of U.S. IPR would be an Achilles’ heel of political support for globalization. Efforts by Senator Evan Bayh (D-IN) and Senator George Voinovich (R-OH) to increase resources for global intellectual property enforcement are an important part of an appropriate political response to IPR.¹³

Magnequench’s Indiana factory closures, however, are not a case of Chinese IPR violations. Neodymium magnets were introduced in 1984 and have become a mature technology 20 years later. Their primary market is in hard drives used in everything from laptops to MP3 players to electronic toys. The sole source of neodymium is Chinese mines. The other source had been a mine in California, which was closed in 2003 due to environmental concerns. The primary customer base of the magnets is in China and Japan, accounting for over 90 percent of global demand. U.S. demand is on the order of two percent of global market share. They are produced and sold on razor-thin margins in a highly-competitive industry with excessive capacity. Given these real world conditions, Magnequench’s exit from the neodymium magnet production business and their closure of the Valparaiso facility is not only rational but an unfortunate business necessity.

Despite all the tumult and finger pointing of recent months, and despite the myriad examples in which politicians, monopolists, and other actors have intervened to the detriment of the public throughout our history as a nation, a reliance on market economics has been the primary reason for the success of the U.S. economy. Market economics values individuals and enterprises that capitalize on innovation, exploit competitive opportunities, and maximize profits. When allowed to flourish, it produces greater wealth and efficiencies than any other system. Globalization, at its root, simply is the expansion of market economics to their earthly potential. Market economics embraces competition, and globalization breaks down barriers to cross-border competition. Obviously, competition produces winners and losers. Globalization simply expands the pool of winners and losers. When globalization produces losers within one’s own borders, it becomes politically difficult to swallow. Yet, capitulating to parochial politics and retreating from globalization would not change the rules of market economics. There would still be winners and losers.

The main difference would be that the winners and losers would come from a smaller, less wealthy and efficient pool.

U.S. critics of globalization as a general rule recognize that it has created more aggregate wealth than would have otherwise occurred. They argue, however, that the promise of globalization—that the rising tide would raise all boats—has proven false. Without question, we live in an era of income inequality and wage stagnation for the middle class. Globalization has enriched executives and left many working Americans no better off than they would be in its absence. But is this a failure of economics, or of governance?

Seeking better income distribution is an important political goal for the next administration. A prescription to cure income inequality by reducing aggregate wealth is, however, not rational. Rather than drawing borders around economic activity in the name of fair play, the goal should be to challenge enterprises and corporate boards to better distribute the benefits of globalization within their respective labor pools. There are numerous administrative tools available, from Compensation Committee guidelines issued by securities exchanges to state “blue sky” laws, which operate to regulate the ability of firms to distribute financial instruments at local levels that could help to ease income inequality within enterprises. All of these would be preferable to throwing the globalization baby out with its bathwater.

For the laid-off Magnequench workers, of course, a more balanced income distribution within their former firm would be of scant value. They are left to start over. Clearly they would have preferred the firm to continue to produce magnets in Valparaiso. As far as the rest of us are concerned though, saving the Valparaiso factory would not have been the sensible or even the economically just thing to do. The Magnequench story leads to the crucial question: when is it okay to let an enterprise or an industry die?

Valparaiso’s workers were both the victims and initial beneficiaries of globalization.

Where Have All the Blacksmiths Gone?

The Magnequench example is somewhat unique given the intrigue associated with its Chinese investors and the military application of its products. Factory closures and major job cutbacks similar to Valparaiso, however, are painfully familiar throughout the United States. Since 2000, the United States has shed an average of around 37,500 manufacturing jobs a month.¹⁴ In July 2008, as reported by the Bureau of Labor Statistics, U.S. employers took 1,512 mass layoff actions, which involve at least 50 persons from a single employer. About 443 of

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these layoff actions involved the manufacturing sector. In total, 54,470 jobs have been lost. Ohio dropped 236,000 manufacturing jobs between 2000 and 2008, representing a 23.3 percent decline in employment in the sector. Since 1999, manufacturing employment in Michigan has dropped by nearly a third, representing some 300,000 jobs.¹⁵

Unemployment is always painful, but especially in the current times of increasing fuel and food prices. In addition to job security, however,

residents of manufacturing states such as Michigan and Ohio have made it clear that sensitive leadership is needed and desired. This sentiment was obvious when Massachusetts Governor Mitt Romney committed to “fight for every job” and won the Michigan Republican primary in early 2008 over Senator John McCain, whose “straight talk” that the “jobs aren’t coming back” seemed like salt in Michigan’s wounds.¹⁶ In addition, popular political rhetoric surrounding the job losses in Michigan, Ohio, and similarly beleaguered states center on unfair international competition and “wrong-headed trade deals.”¹⁷ Popular rhetorical appeal and a search for culprits, however, do not accurately diagnose the problem or respond to the underlying need.

To a fairly significant degree, as noted above, the losses in manufacturing employment reflect ongoing economic trends that have been a constant since the end of the World War II. Today, the service sector has become the employer of nearly 90 percent of Americans. Despite the growth of the services sector, productivity has continued to increase, allowing manufacturing output in the United States to continue to post record highs each year in real terms and maintain its percentage share of GDP for 60 years. The reductions in manufacturing employment over the last 50 or 60 years mirror those in agriculture during the first half of the twentieth century. One in three U.S. workers were employed in agriculture in 1900, but by 1950 that number was only one in ten—where employment in manufacturing currently stands. Agriculture sector employment leveled off in the 1980s at a couple of percentage points of U.S. employment, where it remains.¹⁸ As with manufacturing, agriculture’s share of output has remained relatively constant since 1950. The parallel raises obvious questions about the continued viability of manufacturing as a steady source of employment regardless of labor competition from places like China.¹⁹

The roles of technology and consumer preferences, as well as their effect on the market, are widely ignored in many analyses of job losses, even though they are major factors in the life cycle of industries and firms. Innovation is a great

boon to human progress and a creator of new industries and jobs, though it is not very helpful to older industries and jobs. As Joseph Schumpeter recognized in 1942, the “process of creative destruction is the essential fact about capitalism.”²⁰ Horseshoe production, for example, was a major employer through much of the nineteenth century. By the early twentieth century, with the advent of the automobile, it became difficult to make a living in the horse-shodding business. Auto mechanics replaced blacksmiths and farriers, often directly, as workers retooled their skills to adapt to the new technology.²¹

When is it okay to let an enterprise or an industry die?

Occasionally, a new and promising industry based on one technology is swamped by another just as it is taking off. Microsoft and Intel led the personal computer revolution, creating one of the most important industrial developments in human history though it wreaked havoc with mainframe computing. By the 1990s, the mainframe computing industry was hemorrhaging jobs around Boston’s Route 128, bringing more bleak times to a series of company towns that just 100 years earlier had been devastated by the departure of the textile industry to the warmer, and cheaper, climes in the Carolinas and other parts of southern United States.

The Maddening Certainty of Technological Change

Technology is dynamic—and today’s technological marvel is tomorrow’s anachronism. The fax machine, introduced in the late 1960s as a miracle of technology, grew from 30,000 installed units in 1973 to 300,000 in 1983. By 2003, just five years ago, there were 100 million units in place worldwide. Today, they are essentially paperweights.

As the process of expansion and contraction of various industries continues, the pace shows no sign of slowing down, according to U.S. futurist Ray Kurzweil, who has a three-decade track record in predicting technological change.²² He suggests, based on his Law of Accelerating Returns, that the twenty-first century will see 1,000 times more technological change than its predecessor.²³ The increase, however, is not likely to increase job security. All of us want what we do in life to be lasting. We all want a sense of permanence, and a freedom from uncertainty in our employment, but the churn of the market is inherently unsettling. An August 2008 survey, which was conducted as U.S. workers prepared for Labor Day weekend, suggested that 81 percent of U.S. workers are worried about keeping or advancing in their current jobs.²⁴ Is it politically responsible to assure Americans that their jobs will remain secure, given all the evidence to the contrary?

More effective politics and policies would focus on promoting economic competitiveness.

Americans who have been of working age since 1978 have held, on average, over 10 different jobs in the past 30 years.²⁵ The 1960s “IBM” model of lifetime employment is, for the most part, a thing of the past. The opportunities to work for one company for an extended period of time, earning a decent living and seeing that living improve every year, remain but are becoming scarce. A steady, good job at good wages is neither inevitable nor a birthright.

The uncertainty that the American public feels about its livelihood is intense, and globalization certainly plays a role in accelerating the pace of the market churn. One can credibly make the case that the economic benefits of globalization do not outweigh the anxiety of American workers, given the current structure of the U.S. workforce. The United States can certainly opt to protect jobs from foreign competition as a means of managing the uncertainty of economic change as it has done on numerous occasions in the past.

Protectionist policies, however, are not cost-free. For example, the United States subsidizes the two percent of the labor force in the agriculture sector, amounting to about \$2 billion annually, which contributes both to high food costs and creates inefficiencies that distort markets. Similarly, Washington has long sought protection for textile workers in the form of tariffs and quotas. The U.S. International Trade Commission estimated that in 2003, protection for the U.S. textile industry cost the U.S. public \$13 billion. With just shy of 450,000 textile workers in the country (as of 2002), that amounted to a cost of \$29,000 per textile worker to the average U.S. taxpayer.²⁶ And the industry continues to shrink as a source of employment, despite the protection.

Given the costs, U.S. policymakers clearly need to be selective in the industries they choose to protect from the forces of globalization, though they need to make sure that protection is not absolute. Creative destruction is not simply an international phenomenon, and domestic competition, innovation, and other market forces cannot be stopped in the United States by simply throwing up walls to ward off international competition. In other words, subsidizing domestic neodymium magnet production is not a feasible policy.

The Strategic Industry Challenge

The Bureau of Labor Statistics (BLS) recognizes a variety of high-tech industries under the North American Industry Classification System (NAICS), but arguably, these industries are “mid tech” at best. After all, a laptop computer,

which has been around for 20 years and is essentially a commodity product, is not really *high* tech. Alarm raised by some, therefore, about the “high-tech” imports from China, which contributed a reported \$88 billion to the bilateral trade deficit in 2006, needs to be put in context.²⁷ The churn of the market has turned many of those goods into commodities with relatively little innovation premium.

The backlash of the Magnequench experience has given rise to concerns regarding the production of strategic commodities, such as the neodymium magnets, and whether or not it is a risk for them to be monopolized by a foreign power. Importing military equipment from a potential geopolitical rival is a tricky process despite the economic gains attached to trade. After all, the U.S. Army wants to avoid a repeat of the embarrassing 2001 debacle in which it was left to purchase 600,000 berets from a supplier in China. The early 2001 announcement of a wardrobe change that would have put a black beret on each new Army recruit had to be rescinded (and the suspect berets destroyed) when media coverage uncovered that the new berets were being supplied by China, which Bush had repeatedly termed a “strategic competitor” in the campaign just a few months earlier.

To designate an industry as “strategic” is to set foot on the slippery slope of speculative contingency planning. A permanent magnet has an important function in electronics, and thus is an essential component in smart bombs. Yet, there are a number of other components used by the U.S. military that are not completely U.S.-made. Concluding that the United States has to maintain a domestic supply of neodymium magnets raises a number of questions: should the California neodymium mine be reopened in spite of the environmental objections? How much would captive domestic production cost the taxpayer? And wouldn't newer technologies replace neodymium magnets in U.S. munitions?

In 2008, the Department of Energy discovered a new alloy at its Ames laboratory that is a significant technological step forward when compared with permanent magnets that are now commercially available. The Ames alloy design replaces pure neodymium in the neodymium-iron-boron permanent-magnet crystal structure with a combination of neodymium, yttrium, and dysprosium. The crystal structure is maintained but with far less degradation of magnetic properties, which may prove to be a much more suitable compound for use in applications like smart bombs. The cycle of creative destruction churns on.

It is tempting, in the ongoing process of demonizing globalization and other market forces, to forget that these forces are not just at work here in the United States. Indeed, China's experience with globalization is not completely the *yang* to our *yin*. In 2008, thousands of firms in China began to close down as a rise in labor costs and commodity prices rendered them uncompetitive. On July 10, a

large-scale mass protest was organized in the southern Chinese city of Guizhou following the closure—for global competitiveness reasons—of the Guiyang Refractory Factory. China, the poster child for globalization in the West, has begun to feel some of its destructive effects.

Globalization Can Be Checked, but Change Cannot

At its heart, democratic pluralism is the result of the political activities of interest groups.²⁸ Preserving one's own "stuff," once acquired, is the heart of politics. A promise to preserve an economic status quo makes for popular politics. Yet, it is a promise that cannot be kept. Economic, technological, and social dynamism are, in any market-based system, unstoppable forces.

A far more honest and effective set of politics and policies would be to focus on promoting the tools of economic competitiveness. This would principally include an education policy that focuses on the inevitability of technological change, workforce training that enables U.S. labor to continually retool and adjust to the forces of international and domestic competition, and incentives for businesses to provide such training. Corporate governance should be improved both through voluntary and legislative mechanisms so that it will offer greater bargaining power to labor and a reduction in income inequality. And public resources for smaller businesses should be increased in the United States so that they are able to access overseas markets and enforce their trade and intellectual property rights.

These policies are not the "stuff" that will win political popularity contests. Given the uncertainty and challenge the U.S. public feels as a result of globalization, however, the time may be right to begin serious debate on their implementation. Perhaps competition from China is itself a force that will help drive the debate away from anti-globalization, and toward U.S. competitiveness.

Trusting the market is difficult for a political class that thrives on notions of individual leadership. After all, in the market, no one person is in charge. Decisions by billions of people are the engine that drives the process forward. All these decisions are aimed at yielding a single number: the price. It is that price that determines, through the simplest of calculations, whether a firm and its efforts will be a success or a failure. Collective policy decisions, like the recently legislated Wall Street bailout, to preserve failed efforts send a distinct message: the verdict of billions of people on your efforts is wrong, and your price is not too high. This inevitably sends the market on a tangent that will take more resources and pain than appropriate or necessary.

The market can be cruel, and the pain of its victims can be overwhelming. For politicians faced with constituent alarm at market events, the temptation to point fingers and prop up uncompetitive industries is surely immense. A more

rational and humane approach would be to provide a means for constituents to better survive in a market environment, rather than distort that environment in ways that undermine the billions of acts of collective free will that determine the marketplace. We should be preparing people for success, not conditioning them for failure. If U.S. political leadership does remember Magnequench, perhaps it would be best to use it as a foundation to respond to an external challenge. Magnequench should be used as a way to galvanize politics to work to redefine political “interests” and the “stuff” people want in ways that transcend the narrow rhetoric and policies of the past.

Notes

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