

How trade policy, job hollowing, foreclosures, and financial fragility interlocked (1970s–2026) — and why a Balanced Budget Amendment is the keystone fix

(Every specialized term appears in parentheses with a plain-English definition the first time.)

Executive summary

Americans were sold a partial story about the Great Financial Crisis (Great Financial Crisis: the 2007–2009 financial collapse and recession): that it was mostly “bad mortgages” and “Wall Street packaging.” That story contains truth, but it skips the upstream condition that made the country brittle: a policy-enabled hollowing out of stable production jobs and the industrial commons (industrial commons: the local web of skills, suppliers, tooling, process engineering, and practical know-how needed to build complex goods). As that foundation weakened, household fragility (household fragility: families have little buffer and become vulnerable to default after modest shocks) rose. Once housing turned, fragility became mass foreclosure, then banking losses, then a near-cascade through a global web of contracts and short-term funding.

This paper tells the story chronologically with hard numbers and plain definitions. It concludes with the three realistic paths economies take when debt becomes too large: default, inflate, or discipline. The stable path is disciplined unwinding through a Balanced Budget Amendment (Balanced Budget Amendment: a constitutional rule requiring federal outlays not exceed receipts in normal times, with narrow, transparent emergency exceptions).

Citizen-First Warning 1

When government rewrites the rules of trade and finance, it rewrites the incentives that shape the way corporations do business in the world. If the incentives reward offshoring and leverage, those behaviors will drive the corporation in that direction. Period. It is the government’s job to write the laws that protect our society from runaway capitalism, protect our environment from corporate pollution, and protect our government from corporate influence.

1) Strategic prelude: geopolitics can boomerang domestically

For decades, U.S. policy toward China was shaped by great power politics and geopolitics. A major driver in the early 1970s was the strategic divide within the communist world—specifically the rift between the Soviet Union’s form of communism and China’s version. The United States sought to widen that divide. That is why President Richard Nixon went to Beijing to meet with Chairman Mao in the early 1970s: to drive a wedge between the Soviet Union and

China. The fear was straightforward: the one thing the United States feared more than anything was the largest country in the world, the Soviet Union, integrating with the largest population in the world, China. That diplomatic opening became the beginning of the modern U.S.–China relationship. (nixonlibrary.gov)

Those strategic choices mattered. But the citizen-first test is different:

- Do these choices protect the long-term stability of American communities?
- Do they preserve domestic capability?
- Do they constrain corporate behavior that can hollow out the citizen base?

If government is focused on geopolitics and profit for corporations, it all too often forgets the collateral damage caused to the citizens of its own country. It also seems all too often that leaders are unwilling to admit a mistake, even when it is obvious.

2) The 2000–2001 hinge: predictability for corporations, instability for communities

Two steps mattered.

Permanent trade certainty in U.S. law

Congress passed Public Law 106–286 (United States–China Relations Act of 2000: the law organizing permanent normal trade relations for the People’s Republic of China). (en.wikipedia.org)

Permanent normal trade relations (permanent normal trade relations: making normal tariff treatment permanent rather than requiring annual renewal).

China joins the World Trade Organization

China has been a member of the World Trade Organization since December 11, 2001. (wto.org) Most Favored Trading Status (Most Favored Trading Status: also called “Most Favored Nation status,” meaning the United States gives a country the same low tariff rates and trade advantages it gives its most favored trading partners; in modern U.S. law this is generally referred to as “Normal Trade Relations”). (en.wikipedia.org)

Plain English: these steps reduced policy uncertainty for corporate planners. If a company is going to move factories, suppliers, tooling, and processes across the world, it wants predictable rules. Government created predictability for offshoring at exactly the scale that would reshape the American economy.

Citizen-First Warning 2

If rules allow a corporation to raise margins by leaving the country, many will leave. Companies are not moral entities. They are driven by profit incentives and what the law will allow.

3) Offshoring and the deeper loss: the industrial commons

After 2000–2001, the incentive structure was straightforward:

- lower production costs in China (labor and scale),
- stable trade treatment and predictable rules,
- and a massive future consumer market.

The cost was not only American jobs. The deeper cost was the industrial commons—skills, supplier networks, tooling, and tacit know-how (tacit know-how: knowledge learned by doing that is difficult to write down). Once disrupted, rebuilding takes years or decades.

A further accelerant was “forced technology transfer” (forced technology transfer: pressure to share technology as a condition of market access, often through joint venture requirements). This is one reason the hollowing out was not only wages, but capability.

By hollowing out technology and workforce capability, the United States also deteriorated its ability to shift to a defense-manufacturing effort to defend the nation when required. That capability has been transferred to China—not only the heavy industry needed to execute it, but the know-how that China acquired while the United States became increasingly a consumer economy.

4) Manufacturing job loss (2001–2011): the direct loss and the ripple

Here is the direct manufacturing employment change from the Bureau of Labor Statistics series published via Federal Reserve Economic Data (Federal Reserve Economic Data: a public data portal maintained by the Federal Reserve Bank of St. Louis). (fred.stlouisfed.org)

- 2001 annual average manufacturing jobs: **16,441,000**
- 2011 annual average manufacturing jobs: **11,710,000**
- **Net manufacturing jobs lost by 2011: 4,731,000.** (fred.stlouisfed.org)

That number is large because “20%” refers to 20% of manufacturing employment—not 20% of all U.S. employment.

“Collateral damage” jobs: the local multiplier effect

Manufacturing job loss does not stay inside manufacturing. It spills into suppliers and local services.

Local job multiplier (local job multiplier: the observed tendency for tradable-sector jobs such as manufacturing to support additional local service jobs). Economist Enrico Moretti estimates that for each additional manufacturing job in a city, **about 1.6 jobs are created in the non-tradable sector** (non-tradable sector: local services not easily imported, like restaurants, retail, basic services). (eml.berkeley.edu)

Using that 1.6 multiplier as an illustration:

- Direct manufacturing jobs lost (2001→2011): **4,731,000**
- Illustrative local spillover jobs: **7,569,600**
- Illustrative total employment impact: **12,300,600 jobs** impacted (direct + spillovers)

This is not a claim that each of those jobs disappeared permanently or at once. It is a credible way to show why job loss is contagion: it spreads through local economies.

Contagion (contagion: when a shock spreads through connected systems, producing secondary damage beyond the initial impact).

Citizen-First Warning 3

When stable jobs disappear, households don’t collapse instantly. They compensate with debt—until a shock arrives. Then the “numbers” become families losing homes, savings, and future opportunity.

5) Foreclosures (2004–2011): the visible scar

Foreclosures are not “just a housing story.” They are the visible scar of household fragility.

Definitions:

- Foreclosure filing (foreclosure filing: legal notices such as default notices, auction sale notices, and bank repossessions). (abcnews.com)

- Properties with at least one foreclosure filing (properties with at least one foreclosure filing: unique properties that received at least one foreclosure filing that year).
- Why filings can exceed properties: one property can generate multiple filings as it moves through stages (default notice → auction notice → repossession), and multiple liens (multiple liens: more than one loan recorded against a property) can increase notices. (abcnews.com)

Baseline:

- Completed foreclosures averaged about **228,000 per year from 2000 to 2004** (completed foreclosure: foreclosure process actually finishes, such as a foreclosure sale). (jchs.harvard.edu)
That average is not a perfect year-by-year list, but it is better than pretending the early 2000s had “no foreclosures.” It establishes the baseline before the explosion.

Escalation begins (2005–2007):

- **2005: about 885,000 foreclosure filings.** (rismedia.com)
- **2006: 1,259,118 foreclosure filings.** (rismedia.com)
- **2007: 2,203,295 foreclosure filings on 1,285,873 properties.** (en.wikipedia.org)

Explosion (2008–2011):

- **2008: 3,157,806 foreclosure filings on 2,330,483 properties.** (Filings exceed properties for the reasons above.) (ritholtz.com)
- **2009: RealtyTrac year-end report: 2.8 million U.S. properties with a foreclosure filing.** (fcic-static.law.stanford.edu)
- **2010: 3,825,637 foreclosure filings on 2,871,891 properties.** (nationalmortgageprofessional.com)
- **2011: foreclosure activity remained historically elevated as the labor market remained stressed.**

These numbers are not abstractions. They represent families who lost homes, stability, and future opportunity.

6) Unemployment and the difficulty of restarting a credit-driven economy

Unemployment rate (unemployment rate: percent of the labor force without work but actively seeking work) is a lagging accelerant in credit crises: it spikes after a downturn begins and keeps defaults high.

- The U.S. jobless rate in **2011 was 8.9%**. (bls.gov)

In a credit-driven economy (credit-driven economy: growth heavily supported by borrowing), restarting after a crash is hard because the system depends on trust:

- trust in job stability,
- trust in collateral values (collateral values: what assets are worth if they must be sold),
- trust in lending standards,
- and trust that future income can service new loans.

When trust breaks, households and businesses repair balance sheets (balance sheet repair: paying down debt and rebuilding cash buffers). Spending stalls, borrowing stalls, and recovery slows even if the crisis has “passed.”

Citizen-First Warning 4

A system built on ever-expanding credit can look prosperous while it’s fragile. When trust breaks, it doesn’t restart easily—because people do not borrow into fear.

That fear does not only affect the families forced into foreclosure and, for some, bankruptcy. It spreads through the entire population. It reshapes culture. It weakens trust not only in the economy, but in leadership in Washington, D.C. Over time, it changes whether people believe it is safe to start families of their own. When trust collapses at scale, it leaves a generational imprint.

7) 2008–2011 financial fragility: why the web nearly cascaded

Most citizens heard the word “derivatives” without being told what it meant.

Derivative (derivative: a financial contract whose value depends on something else, such as an interest rate, a bond price, or a default event). Many derivatives are risk-transfer contracts (risk-transfer contracts: contracts designed to shift financial risk from one party to another for a price).

The crisis became systemic for two reasons:

A) The hidden operating costs of mass foreclosure

A bank’s problem was not only missed mortgage payments. Foreclosure forced front-loaded cash expenses:

- insurance to protect the property,

- property taxes (which can become senior claims),
- legal fees and court costs,
- maintenance and preservation,
- and time carrying a non-performing loan.

When this happens at the scale of millions of homes, those costs become a systemic drag.

B) The failure of “protection” under stress

In plain terms, many institutions believed they had protection against credit losses via insurance-like structures and contracts. But when defaults rose nationwide, protection sellers and intermediaries faced demands they could not meet in real time.

Key terms:

- Counterparty (counterparty: the other party on a contract).
- Counterparty risk (counterparty risk: the risk the counterparty cannot pay).
- Liquidity stress (liquidity stress: many parties need cash at once and cannot obtain it without big losses).
- Collateral call (collateral call: a demand to post cash or high-quality collateral immediately because prices moved or credit quality worsened).
Collateral calls force selling; forced selling drives prices down; falling prices trigger more collateral calls. That’s how a localized loss becomes a cascade.

This is why officials intervened: to stop contagion from freezing credit across the world system linked by contracts and short-term funding.

Fueled by nationalism after the September 11, 2001 attack on our nation, the federal government made massive changes in its structure, creating the Department of Homeland Security (Department of Homeland Security: the federal department formed after September 11 to coordinate domestic security functions) and reorganizing several key departments. Within a short period of time—just a few weeks after September 11—the United States invaded Afghanistan. In 2003, the United States invaded Iraq.

The costs of these wars can be seen as catalysts for higher long-term debt; they were, in effect, debt placed on America’s future. At the same time, it can be argued that the defense surge may have slightly lessened the immediate economic impact in some sectors by driving demand in defense contracting and government hiring, including large expansions in agencies such as the Transportation Security Administration (Transportation Security Administration: the federal agency created after September 11 to provide transportation security). That does not make war an economic boom. The money was borrowed, and the wars were entered into under false pretenses. The American people were lied to once again.

For those who do not remember that period clearly, it also widened the divide between Democrats and Republicans. Responsibility for those decisions sits with the coalition of

leaders—Republicans and some Democrats—who voted for those wars. The result is not only financial; it shaped the sad state of geopolitics the nation now faces.

None of this excuses the core failure: government should never have allowed corporations to hollow out the manufacturing base and send it to China. Even though the tables and core numbers in this paper focus on 2001 through 2011, that was not the end of the story. Unemployment remained elevated, deficits continued, debt accumulated rapidly, the wars continued, and partisan conflict escalated. Jobs did not stop moving to China.

Later tax policy continued to prioritize corporate and high-income relief as a method of “stimulating” growth by allowing large asset-holders to retain more resources rather than contributing to the common good. (taxpolicycenter.org)

That approach follows the same underlying pattern: protect the corporate and financial structure first, and address citizen damage later—if at all.

8) Fiscal backdrop: surpluses disappeared, tax cuts arrived, and budgeting became crisis-driven

The late 1990s and 2000 saw federal surpluses. Treasury and government reports describe consecutive surpluses in fiscal years 1998–2000, including a record surplus in fiscal year 2000.

Then major tax policy changes arrived:

- Economic Growth and Tax Relief Reconciliation Act of 2001 (Economic Growth and Tax Relief Reconciliation Act of 2001: the 2001 tax cut law).
- Jobs and Growth Tax Relief Reconciliation Act of 2003 (Jobs and Growth Tax Relief Reconciliation Act of 2003: the 2003 tax cut law, including reductions in taxes on dividends and long-term capital gains).

The citizen-first point is not whether an appropriations law was eventually signed. The point is that operating through stopgaps and mega-bills reduces transparency and enables overspending. And beyond the spending process, a citizen-first country must look at the reality of what other countries are doing—what the incentives are, and what the outcomes will become—then take an honest approach about what is actually taking place in the world, not what United States leadership says is happening, and react to the realities, not to the propaganda. Period. A useful case study is the repeated claim that Russia must be stopped because if it succeeds in taking eastern Ukraine, it will then try to take Poland and reclaim all of the Soviet Union’s prior satellite countries. That storyline is ludicrous when Russia cannot even effectively destroy the armed forces of a country with less than 40 million people in it. Even if Russia has over 180 million people, yes, it can win a war of attrition, but the idea that it will then march into a unified Europe of over 500 million people—with all of Europe’s economic and manufacturing base behind it—is not a serious assessment. Yet that storyline is constantly fed to the public, in part to keep monetizing the Ukraine war instead of looking at the reality: Ukraine is likely to capitulate

eventually, whether through a frozen conflict or a treaty. Russia is in the driver's seat now in large part because of the intervention of the West, and millions of people have been displaced, and over a million people have died or been wounded. Most tragically, hundreds of billions of dollars of infrastructure have been destroyed by both sides. And for what purpose? It could have been avoided.

Citizen-First Warning 5

We cannot continue to be reactive in the way we manage the entire world's financial system, but more specifically, the system within the United States that impacts the rest of the world. Currently, we have a reactive government. There's a problem that pops up, and they react to it by making a law, and what that eventually does is it creates a patchwork of laws for specific problems that don't necessarily fix the overall problem. This is an opportunity to correct the direction of our country's economic system so that citizens can once again see stability in the future and plan because there is a consistent set of rules that makes sense instead of a patchwork of fixes. We need to be proactive in our attempts to fix this problem, and we need to focus more on the citizen in this age of change, instead of continuing to focus on how we can be the hegemon in the geopolitical power race. Governments need to listen to corporations, but they must stop letting corporations drive the narrative of our politics. In the last 25 years, there have been multiple major tax relief packages, and much of that relief went to asset owners, the richest segment of the country, and corporations. In the 1990s, taxes were applied more heavily to high-income earners and corporations, and the federal government was able to balance its budget three years in a row. We need to return to the reality of what worked in the late 1990s—yes, there were problems, but they were manageable. The problems we have today are manageable too, if we look at them through the lens of citizen success instead of the drumbeat that our corporations must dominate the world. We need to look at the reality of what other countries are doing, not only what national leaders say they are doing, and adopt a disciplined, reality-based lens through which we view the world.

9) 2011–2019: the long recovery, rising debt, and the balance-sheet unwind that set the stage for 2019

By 2011 the acute panic phase had passed, but the consequences did not. The wars continued, deficits remained large, and the national debt grew. The economy recovered unevenly, and the recovery rested heavily on confidence, credit, and interest rates.

Three trends define this period:

9A) Unemployment fell, but the system remained sensitive

Unemployment improved substantially over the decade. For context, 2011 ended with an annual average unemployment rate of **8.9%**. ([bls.gov](https://www.bls.gov))

By 2019, unemployment was far lower; the Bureau of Labor Statistics reports regional unemployment rates in 2019 ranging from **3.5% to 3.9%** across major regions, indicating historically low unemployment nationally. ([bls.gov](https://www.bls.gov))

But a low unemployment rate does not mean low fragility. A credit-driven system can look stable even while its plumbing becomes more delicate—especially when borrowing and leverage are conditioned by a long period of low interest rates.

Interest rate (interest rate: the price of borrowing money).

9B) Financing the debt: deficits and interest-rate sensitivity persisted

The federal deficit did not disappear in the post-crisis era. As one example, the Congressional Budget Office reported the federal deficit in 2019 was **\$984 billion**. ([cbo.gov](https://www.cbo.gov))

The long-run problem is not one year's deficit; it is the cumulative habit of borrowing that makes the system increasingly sensitive to changes in interest rates.

9C) Quantitative easing, then quantitative tightening, and how reserves became scarce enough to matter

Quantitative easing (quantitative easing: large-scale purchases of securities by the Federal Reserve to push down longer-term interest rates and support market functioning, expanding the Federal Reserve's balance sheet).

Quantitative tightening (quantitative tightening: reducing the Federal Reserve's securities holdings over time, primarily by limiting reinvestment of maturing securities, shrinking the balance sheet in a predictable manner).

The Federal Reserve purchased Treasury securities and agency mortgage-backed securities as part of quantitative easing programs from 2009 to 2014, expanding its balance sheet substantially by the end of the third round of purchases. ([federalreserve.gov](https://www.federalreserve.gov))

In later years, the Federal Reserve began balance sheet normalization (balance sheet normalization: the process of shrinking the securities holdings accumulated during quantitative easing). Federal Reserve materials describe how monthly "caps" on runoff rose during 2018 and how in March 2019 the Federal Open Market Committee announced it would slow runoff and intended to conclude the reduction of aggregate securities holdings around late 2019.

([federalreserve.gov](https://www.federalreserve.gov)) ([federalreserve.gov](https://www.federalreserve.gov))

Why this matters for 2019:

When the Federal Reserve shrinks its balance sheet, reserve balances (reserve balances: electronic balances banks hold at the Federal Reserve used for settlement inside the banking system) can decline and become unevenly distributed. If reserves become scarce relative to the system's needs, short-term funding markets can become jumpy.

The Federal Reserve’s own research note on September 2019 states that overnight money market rates spiked amid a large drop in reserves due to corporate tax payments and increases in net Treasury issuance, and that the extent of the volatility was surprising. ([federalreserve.gov](https://www.federalreserve.gov)) The Office of Financial Research similarly explains the 2019 spike as driven by a large transfer of reserves to the government around tax and settlement dates, creating a mismatch between supply and demand in repurchase agreement markets. ([financialresearch.gov](https://www.financialresearch.gov))

So the missing link is this: the recovery period did not “reset” the system. It left a structure dependent on low interest rates, large debt, and a delicate balance of reserves and collateral. Balance sheet normalization reduced reserves and dealer balance-sheet slack at the same time Treasury issuance was large. That combination helps explain why a seemingly “normal” day in September 2019 produced a funding shock.

10) 2019: the repurchase agreement market warning shot

Repurchase agreement markets (repurchase agreement markets: the day-to-day “overnight borrowing” system where large financial institutions turn high-quality collateral like United States Treasury securities into short-term cash to meet daily obligations, settle trades, and fund positions; if this overnight cash pipeline seizes, credit and trading can freeze quickly across the entire system) are the heartbeat of high finance. In September 2019, the Federal Reserve Bank of New York announced an overnight repurchase agreement operation for up to **\$75 billion**. ([newyorkfed.org](https://www.newyorkfed.org))

This proved something critical: even with “safe collateral” like Treasury securities, the plumbing can seize if cash distribution and balance sheet capacity are constrained.

Safe collateral (safe collateral: assets widely accepted to secure short-term borrowing because they are liquid and considered low credit risk—typically United States Treasury securities).

11) March–June 2020: proof the system can fail fast

The pandemic triggered a “dash for cash” (dash for cash: investors selling assets rapidly to obtain cash and the most liquid instruments). The Financial Stability Board’s holistic review describes March 2020 as unprecedented liquidity stress and a fundamental repricing of risk, requiring a rapid and sweeping policy response. ([fsb.org](https://www.fsb.org))

Then the rescue expanded into corporate credit:

- The Secondary Market Corporate Credit Facility began purchasing eligible exchange-traded funds on **May 12, 2020**. ([newyorkfed.org](https://www.newyorkfed.org))
- It began purchasing eligible corporate bonds on **June 16, 2020**. ([newyorkfed.org](https://www.newyorkfed.org))

This is the central question:

If the system can freeze and confidence can collapse rapidly under stress, what makes anyone confident the next crisis will unfold slowly?

A fragile system fails fast.

12) The 2026 warning: thin buffers and the return of moral hazard pressure

A 2026 warning report finds that a large share of the non-centrally cleared segment of government-bond-backed repurchase agreements operates with **zero haircuts** (zero haircut: borrowing against collateral with no extra cushion). ([fsb.org](https://www.fsb.org))

Plain English: in large parts of the system, there is little shock absorption. When prices move, liquidity stress appears instantly.

This creates moral hazard pressure:

Moral hazard (moral hazard: more risk-taking because rescue is expected). If the system is built so that failure would cascade, government will feel compelled to intervene again.

13) Fiscal dominance: when debt pressures begin steering monetary policy

Fiscal dominance (fiscal dominance: a condition where government debt and deficits become so large that monetary policy is pressured to accommodate fiscal needs, such as containing debt service costs, rather than focusing solely on inflation and employment). ([brookings.edu](https://www.brookings.edu))

This matters because it connects the debt problem to the monetary response:

- The higher the debt, the more sensitive government finances become to interest rates.
 - The more sensitive government finances become, the more pressure exists to keep rates lower than they otherwise would be.
 - That can feed asset inflation and encourage leverage, setting up future instability.
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14) Three ways forward: default, inflate, or discipline

There are only three broad ways to deal with a debt path that has become too large relative to the system's capacity:

1. **Default** (default: refusing or failing to pay obligations as promised).
Politically, the United States is unlikely to choose outright default as long as it can print and refinance in its own currency.
2. **Inflate** (inflate: reduce the real burden of debt by increasing the price level and the size of nominal economic activity).
Inflation can make debt look smaller relative to the economy, but it punishes savers and wage earners, and it is unstable. A black swan event can crash a fragile, inflated system suddenly and violently—as 2020 demonstrated.
3. **Discipline through a Balanced Budget Amendment**
A Balanced Budget Amendment is a stable unwinding over time. Pursuing it over a defined period—such as a five-year transition—can function as a disciplined, predictable correction rather than a sudden shock. It forces Congress to stop routine deficit spending, reduces the debt's growth pressure, and lowers the probability that the country is pushed into fiscal dominance and repeated rescues.

This is the citizen-first path: proactive cleaning instead of reactive bandaging.

15) Closing warning: why it can happen again, bigger

This is happening again—not in identical form, but in the same structure:

- short-term funding dependence,
- thin or absent cushions in key collateralized borrowing,
- and a system conditioned to expect rescue when liquidity stress spikes.

New accelerants are emerging:

Artificial intelligence and the next employment shock

Artificial intelligence can automate large categories of work. If adoption reduces employment in white-collar processing and middle-management work, job losses can spread quickly through local multiplier effects—just as manufacturing losses did.

Migration pressures, wages, and housing stress

Large population flows **have** affected labor markets and housing demand. If wages are pressured downward in certain segments and housing demand rises faster than supply, housing affordability can worsen. When large numbers of people compete for limited housing stock, prices can rise and families can be squeezed. In a fragile system, squeezed families default faster when shocks hit.

“No haircut” plumbing risk and compelled bailouts

If a large share of collateralized borrowing runs with no cushion, then a modest shock can turn into a fast-moving panic. Lenders stop renewing short-term loans, borrowers scramble for cash, and assets get sold quickly at falling prices. That can force more selling and more panic, spreading stress across markets.

And now add fiscal dominance: as debt service becomes politically untouchable, monetary policy becomes constrained. That’s a recipe for repeated rescues, repeated inflation pressure, and declining public trust.

You can only print and promise for so long before people stop believing it is money.