Trade Agreements and Employment Consequences

"It's understandable that voters are angry about trade. The U.S. has lost more than 4.5 million manufacturing jobs since NAFTA took effect in 1994. And as Eduardo Porter wrote this week, there's mounting evidence that U.S. trade policy, particularly with China, has caused lasting harm to many American workers.

Here's the problem: Whether or not those manufacturing jobs could have been saved, they aren't coming back, at least not most of them. How do we know? Because in recent years, factories *have* been coming back, but the jobs haven't. Because of rising wages in China, the need for shorter supply chains and other factors, a small but growing group of companies are shifting production back to the U.S. But the factories they build here are heavily automated, employing a small fraction of the workers they would have a generation ago.

Since the recession ended in 2009, manufacturing output — the value of all the goods that U.S. factories produce, adjusted for inflation — has risen by more than 20 percent, because of a combination of "reshoring" and increased domestic demand. But manufacturing employment is up just 5 percent. And much of that job growth represents a rebound from the recession, not a sustainable trend.

There's no mystery why candidates love to focus on manufacturing and trade. The U.S. economy faces deep structural challenges — stagnant wages, rising inequality, falling employment rates among men and other groups — and China presents an easy scapegoat. And manufacturing in particular embodies something that seems to be disappearing in today's economy: jobs with decent pay and benefits available to workers without a college degree. The average factory worker earns more than $25 an hour before overtime; the typical retail worker makes less than $18 an hour.

But those factory photo ops ignore an important reality: In 1994 there were 3.5 million more Americans working in manufacturing than in retail. Today, those numbers have almost exactly reversed, and the gap is widening. More than 80 percent of all private jobs are now in the service sector."

Ben Casselman, "Manufacturing Jobs Are Never Coming Back," *FiveThirtyEight*, March 18, 2016.

From Conservative economist Alan Blinder:

"International trade is, once again, a hot-button political issue, making this an unpropitious time for rational discourse about the subject. Nonetheless, here are five issues on which the overwhelming majority of economists, liberal and conservative, agree.

1. Most job losses are not due to international trade. Every month roughly five million new jobs are created in the US and almost that many are destroyed, leaving a small net increment. International trade accounts for only a minor share of that staggering job churn.

2. Trade is more about efficiency—and hence wages—than about the number of jobs. Imagine how much lower your standard of living would be if you had to sew your own clothes, grow your own food . . . and a thousand other things.

3. Bilateral trade imbalances are inevitable and mostly uninteresting.

4. The US multilateral trade balance—its balance with all of its trading partners—has been in deficit for decades. To balance the books, they get our IOUs, which means they wind up holding paper—US Treasury bills, corporate bonds or other private debt instruments. That doesn't sound so terrible for us, does it?

5. Trade agreements barely affect a nation's trade balance. Much of the political angst is directed not at trade in general, but at specific international trade agreements. The North American Free Trade Agreement allegedly shipped US jobs to Mexico; the Trans-Pacific Partnership will allegedly ship US jobs abroad as well.

There is a grain of truth here. Some US jobs were indeed destroyed when NAFTA liberalized trade with Mexico—and those people deserved better treatment from the government than they got. But NAFTA also created a number of new jobs in the US (See No. 2 above.)

Most fundamentally, but least understood, a nation's overall trade balance is determined by its domestic decisions, not by trade deals. Trade deficits are not a major cause of either job losses or job gains. But some people do lose their jobs from shifting trade patterns; and the government should do more to help them. Importantly, trade makes American workers in general more productive and, presumably, better paid."

---Alan Blinder, "Five Big Truths About Trade," *Wall Street Journal*, April 24, 2016

Since WWII, we have seen a shift in the production of many goods, primarily to lower wage countries. In a few cases this shift has been the result of trade agreements that have lowered barriers to trade. In most cases it has been the result of production efficiencies elsewhere. The effects of this shift include improving living standards in developing countries as wages rise and less expensive autos, clothes and electronics purchased by the rest of the world, raising our standard of living.

It would be great if this were the extent of the effects of expanding international trade. But it isn't. As production has shifted out of the US to other countries, for whatever reason, some people have lost their jobs and some local economies have been devastated. Globalization, spurred on by international trade agreements that lower tariffs and expand trade has led to stagnating middle class incomes. Wage Stagnation

Clearly we have a case where one facet of free enterprise capitalism—freedom to trade—yields a result that we may not be willing to accept. So what are the options?

We could use regulation (tariffs—a sort of unilateral anti-trade agreement) to raise the cost of foreign produced goods to the point where it once again becomes profitable to produce them at home. This might create new jobs to replace some of the ones lost when production moved overseas, although it's unclear how many jobs might actually return, because companies would be incented to substitute capital for labor to reduce costs. But fewer people would be able to afford the higher priced goods. And it would lower everyone's standard of living because we would now be paying more for the things we consume. Furthermore, other countries might retaliate by imposing higher tariffs on the things we export—a sort of beggar thy neighbor circle of taxes. It's very hard to say who would come out on top after the process worked itself out. This overall effect is the primary reason countries have entered into trade agreements.

An alternative to trying to return the world to the state it was in before trade agreements would be to respond directly to the effects of off shoring. We could provide job training and income supplements to displaced workers. We could work with cities and other localities to develop new jobs to replace the ones that have left.

None of the choices are without cost. Ending the trade agreements to help workers in specific industries—effectively raising tariffs and thus prices—makes goods more expensive for consumers. Providing direct aid to people and localities that are most affected by the changing patterns of international trade might require higher taxes.

How do you choose?