

Can Trade Work for Workers?

The Right Way to Redress Harms and Redistribute Gains

Gordon H. Hanson

For decades, the promise of globalization has rested on a vision of a world in which goods, services, and capital would flow across borders as never before; whatever its other features and components, contemporary globalization has been primarily about trade and foreign investment. Today's globalized economy has been shaped to a large extent by a series of major trade agreements that were sold as win-win propositions: corporations, investors, workers, and consumers would all benefit from lowered barriers and harmonized standards. American advocates of this view claimed that deals such as the North American Free Trade Agreement would supercharge growth, create jobs, and strengthen the United States' standing as the world's largest and most important economy. According to then President George H. W. Bush, "NAFTA means more exports, and more exports means more American jobs."

A quarter of a century later, such optimism appears profoundly misplaced. NAFTA and other deals did boost

growth, and free trade remains a net benefit for the U.S. economy as a whole. But the overall gains have been far less dramatic than promised, and many American workers suffered when well-paid manufacturing jobs dried up as factories moved abroad. Those who managed to stay employed saw their wages stagnate. The federal government, meanwhile, did little to build a safety net to catch those who lost out.

Unsurprisingly, Americans have complicated views on trade. Although a majority of voters see free trade as a good thing, barely one-third believe that it creates jobs or lowers prices. In response, political elites and elected officials across the ideological spectrum have scrambled to distance themselves from free-trade policies and from the major pacts of the past. For its part, the Biden administration has made a noble-sounding but vague pledge to pursue a "worker-centric" trade policy. The specifics are still unclear, but such an approach will likely include more aggressive so-called Buy American provisions, which require government agencies to give preference to U.S. products when making purchases; increased pressure on trading partners to respect workers' collective-bargaining rights; and a hawkish relationship with China. Despite the rhetoric, these proposals put the administration well within the bounds of existing U.S. trade policy—tweaking margins here and there.

That approach is unlikely to fix the problems caused by free trade—which, despite the appeal of protectionist talking points, isn't going anywhere. Instead, the Biden administration should establish targeted domestic

GORDON H. HANSON is Peter Wertheim Professor in Urban Policy at the Harvard Kennedy School.



programs that protect workers from the downsides of globalization. A responsible policy would capture the gains of free trade but make up for domestic losses. In recent years, the United States has done neither.

BIG TALK

The skepticism about globalization that now pervades U.S. politics has its origins in the failed promises of 1990s trade liberalization. NAFTA and China's accession to the World Trade Organization disrupted economic life in the small and medium-size American cities that once formed the country's manufacturing backbone. Resentment over those changes helped Donald Trump win the presidency in 2016. If President Joe Biden hopes to launch or modernize U.S. trade policy, he will have to address this legacy.

NAFTA was a bipartisan effort initiated in 1990 by Bush and concluded in 1994 by his successor, Bill Clinton. Leaders in Canada, Mexico, and the United States heralded the deal as an economic miracle. Mexican President Carlos Salinas de Gortari and his aides promised that the agreement would turn Mexico into the next South Korea. Clinton waxed poetic not only about conventional economic gains from trade but also about how NAFTA would foster "more equality, better preservation of the environment, and a greater possibility of world peace."

These were bold but arguably irresponsible claims. In the end, NAFTA did what standard economic models predicted: it delivered modest net benefits, primarily by giving U.S. companies access to manufacturing components at lower prices, enhancing

their competitive advantage in global markets. But NAFTA worked no miracles. Although the deal hastened the industrialization of northern Mexico, the south of the country remained poor, overall productivity growth languished, and Mexican immigration to the United States surged to new highs during the late 1990s and the early years of this century—contrary to Clinton's and Salinas's promises.

In the United States, the aggregate gains in real income from NAFTA were positive but meager—less than 0.1 percent, by some estimates. Mexico's economy, roughly the size of Ohio's at the time of the deal's signing, simply wasn't large enough for the agreement to have a substantial impact. Running for U.S. president as an independent populist in 1992, the American businessman Ross Perot famously predicted that Americans would hear a "giant sucking sound" as jobs crossed the border into Mexico. No enormous shift materialized, but many U.S. workers, especially those in labor-intensive manufacturing industries, did lose their jobs. Some eventually found employment in new truck and jet-engine factories, but most did not. For them, the upsides that NAFTA presented to others offered no solace.

Freer trade in North America, however, was just the warm-up act for the real show: China's emergence as a global economic powerhouse, a process that began in the late 1970s under the leadership of Deng Xiaoping, who reduced the state's stranglehold on the economy, allowed private enterprise to flourish, and opened China up to limited forms of foreign investment. The impact of Beijing's outward turn

was immense. Almost overnight, China became the world's factory. Between 1990 and 2015, the country's share of global manufacturing exports rose from 2.8 percent to 18.5 percent.

Aside from the speed and scale of the transformation, however, another factor amplified the disruptive power of Chinese growth. In the 1990s and at the turn of the twenty-first century, the Chinese model of export-driven growth relied almost exclusively on labor-intensive products—apparel, footwear, and other consumer goods that China could produce more cheaply than other countries owing to its low labor costs, its proximity to suppliers in East Asia, and a willingness to let private companies make exacting demands on workers. Although China has since diversified its economy, this initial surge in labor-intensive exports proved deadly for U.S. manufacturing. Between 2000 and 2011, the United States' share of global manufacturing exports slumped from 14 percent to 8.6 percent, and according to my research with the economists David Autor and David Dorn, between 600,000 and one million U.S. manufacturing jobs disappeared.

THE CHINA SHOCK

Part of what made the surge in Chinese exports so painful for American workers was that many of them lived and worked in industry towns. When manufacturing jobs in those towns disappeared in response to rising import competition, it wasn't just factory workers who suffered: everyone else did, too. Consider Martinsville, a small town in southern Virginia that is part of a manufacturing belt that stretches through North Carolina and

into northern Georgia, Alabama, and Mississippi. In 1990, 41 percent of the working-age population in the three counties surrounding Martinsville worked in manufacturing, with half of those workers employed by just two industries: furniture and knitted outerwear. This made Martinsville what economists call an "industry cluster," a place that enjoys a productivity boost from workers and firms specializing in a narrow set of industries operating in close proximity to one another. That benefit, which the British economist Alfred Marshall famously identified in his analysis of the nineteenth-century Lancashire cotton textile industry, explains why firms in certain industries tend to locate near one another.

Specialization, however, also leaves regional markets exposed in the event of an adverse economic shock—which is precisely what China's rise represented. Between 1990 and 2012, furniture was one of the U.S. industries hit hardest by Chinese import penetration. For Martinsville, the impact was devastating. Its main industry, furniture and fixtures, saw employment drop nationally from 378,000 to 283,000 between 2000 and 2007. Many of Martinsville's factories closed, and by 2018, only 12 percent of the area's adults still worked in the sector. This pattern of concentrated job losses in manufacturing repeated itself across the United States. It was one of the most immediate consequences of the China trade shock—the period of rapid Chinese productivity and export growth following the country's market-oriented reforms.

In theory, there are many ways in which a community such as Martinsville

could adjust to a major change in its economic landscape. Its furniture and textile firms could have invested in innovations that improved product quality and allowed them to maintain their market share. Local governments could have attracted new firms seeking to take advantage of a newly available labor force. Or workers could simply have given up on Martinsville and moved elsewhere in search of gainful employment.

In reality, however, communities rarely adapted in these ways. For reasons economists still don't entirely understand, when workers without a college degree lose their jobs, few choose to move elsewhere, even when local market conditions are poor. Consequently, manufacturing job losses usually result in lower earnings for former factory workers and lower employment rates in their communities. Martinsville was no exception. The proportion of the working-age population that had jobs—a strong barometer of economic well-being—fell from a healthy 73 percent in 1990 to an anemic 53 percent in 2015. The same story played out in hundreds of places across the United States.

Why was the China shock so disruptive? After all, job losses in the United States are common. In a typical year, millions of jobs are eliminated, but slightly more jobs are created, and so U.S. employment expands. That's how the labor market normally operates. Mass job loss due to factory closures, however, is not normal. Among workers without a college degree, manufacturing pays relatively well. When those good jobs disappear, so, too, do the generous paychecks. The result is essentially a localized recession: displaced workers

spend less on restaurants, entertainment, home renovations, childcare, and other services, pushing the economy into a downward spiral of further job losses and spending cuts.

Although the newly jobless can and do often claim unemployment benefits, these cover only a fraction of previous earnings and expire after six months. The Trade Adjustment Assistance program, established by Congress in 1962, covers up to two years of basic retraining for workers displaced by import competition. But between 2000 and 2007, when Chinese exports were doing the most damage to U.S. manufacturing, the program was still small and provided workers with little help. Autor, Dorn, and I estimate that for every \$1,000 increase in Chinese imports per U.S. worker, TAA provided just 23 cents per worker in benefits. For able-bodied Americans who wished to continue working, government benefits were paltry.

Still, the long decline of U.S. manufacturing employment is not the result of international trade alone. Job losses in the sector since the 1960s likely have had much more to do with technological change than globalization. Other forces—including deunionization and the declining real value of the minimum wage—have also suppressed incomes for less educated workers. Yet wage and employment losses from foreign competition stand out because they were highly localized and because policymakers didn't prepare for them. Rather than lifting all boats, globalization pushed the Martinsvilles of the United States into deindustrialization and decay. These tectonic shifts gave many Americans the sense that they

had been left behind—the victims of globalization and free trade.

THE UPSIDE

Despite these downsides, globalization has undoubtedly helped the U.S. economy. There is robust evidence that freer international trade, including with China, has raised real incomes for U.S. households by about 0.2 percent—not a transformative amount, but substantially more than the net benefits brought by NAFTA. The backlash against globalization—rooted in the painful experiences of manufacturing communities—puts those gains at risk. As the Biden administration seeks to make its trade policies more worker-centric, it would do well to keep that fact in mind.

China's rise, although disruptive for many workers, has nevertheless benefited the U.S. economy. The expansion of global value chains, which meant that different stages of manufacturing could happen in different places, allowed U.S.-based multinationals, such as Apple and Qualcomm, to fully commercialize their intellectual property. The patents and product designs for the iPhone, for instance, were developed in California, at Apple's Cupertino headquarters—but they became valuable only because the Chinese manufacturing giant Foxconn could assemble huge numbers of handsets in Shenzhen. These innovations are economically valuable for U.S. workers and shareholders, as well as the millions of people lifted out of poverty in China. American consumers benefit from China's rise, too, through lower prices on the goods they purchase.

With these advantages in mind, Biden should reengage with U.S.

trading partners and make it a priority to rejoin the Trans-Pacific Partnership—a wide-reaching trade agreement among a dozen countries. Doing so would deepen the economic relationship between the United States and the countries that will produce parts, components, and goods for the next generation of U.S. technology. It would also strengthen U.S. ties with countries that would like to see Beijing live up to its commitments as a member of the World Trade Organization, providing Biden with allies he will need if he wants China to improve its behavior.

More broadly, the Biden administration should focus on the consequences of job losses rather than their causes. The China trade shock hurt many U.S. workers and their communities. But so, too, have automation, the Great Recession, and the COVID-19 pandemic. And because the scarring effects of job losses are the same whether imports, robots, or a virus is responsible, responses to the damage should not depend on the identity of the culprit. On its own, making U.S. policies on trade more worker-centric won't do the trick. All economic policy needs to be more worker-centric, in terms of being attuned to the destructive effects of concentrated layoffs and plant closures.

The administration should assume that in response to a large and localized employment decline, few workers without college degrees are likely to relocate—especially older ones who were born in the United States. It is a mistake to believe that because of the dynamism of the U.S. labor market, localized spikes in joblessness will sort themselves out; they don't, and they require immediate remedies. In its

current form, however, the U.S. unemployment insurance program usually extends benefits only when the national economy is in a severe recession. Such an approach did little to help communities such as Martinsville weather greater foreign competition. A better system would consider the severity of regional shocks when setting the duration and generosity of benefits.

Abundant evidence suggests that such help reduces the fallout from sudden job losses without creating disincentives for displaced workers to find new jobs. But policymakers do need to be mindful of that risk if they expand similar programs. Doing so would be a matter of providing workers with assistance and incentives to return to work quickly. Also problematic is the way that TAA encourages people to stay out of the labor force to receive approved forms of job training. And such training may not even be the best prescription for many workers, who might be better off receiving money to help pay off bills or to finance a move to a place with better employment prospects. The legislation that created TAA makes such aid possible, but it is rarely offered in practice. An improved system would give workers more flexibility in how they could use extra unemployment insurance. For some, paying for retraining or occupational licensing may be the right choice. For others, covering moving costs or investing in a new business might be the better investment. Congress should give workers freedom of choice, rather than saddling them with the burden of a one-size-fits-all program.

Finally, when considering how to promote job creation in distressed

regions, it is important to acknowledge that most of the U.S. jobs that were lost to import competition (or to automation) are not coming back. The China trade shock ended almost a decade ago. Today, China's economy is slowing, its comparative advantage in labor-intensive products is slipping, and its government is directing resources away from the private sector and toward state-owned and state-approved enterprises whose record of productivity growth is unimpressive. As China tries to pivot into high-tech sectors such as robotics and artificial intelligence, Bangladesh, Vietnam, and other countries in South and Southeast Asia are positioning themselves to capture market share in the sectors in which China used to dominate. For that reason, it would be a mistake to try to foster a manufacturing renaissance in places such as Martinsville; furniture and apparel companies may no longer find cheaper labor in China, but they will find it elsewhere. Encouraging optimism about the reshoring of jobs would only lead to more disappointment, and might further fuel the backlash against free trade and globalization.

The Biden administration should instead try to help communities such as Martinsville thrive. Doing so will require ingenuity and experimentation. Federal officials should give their local and state counterparts wide latitude to pursue policies that are right for the places they serve. Conventional approaches won't necessarily be the most effective. Take tax incentives, for example, which officials often use to entice businesses to move to their states or municipalities. The economist Timothy Bartik has found that al-

though such measures expand output in targeted industries, they appear to do little to raise local living standards. And for each job they create, such incentives impose costs that are nearly ten times as high as those of some other options for creating employment, such as redeveloping defunct industrial sites known as brownfields.

So what actually works? Evidence shows that active labor-market programs, designed to help young and disadvantaged workers succeed in the labor market, are a good bet. Successful approaches provide people with assistance in their job searches, help the young build the soft skills required to find and hold a job, and deliver technical training tailored to promising local industries, such as health care or information technology. Other alternatives to tax incentives include attracting college-educated workers to distressed communities through student-debt forgiveness or the promise of an immigration visa, providing services to help local firms expand into new markets, and improving access to capital for small and medium-size businesses—many of which are owned by members of minority groups and are poorly connected to existing sources of finance.

Helping left-behind regions should be a core goal of Biden's administration. But trying to undo three decades of structural change in the global economy isn't the right way to get there. Biden and his team need to be clear-eyed about what trade policy can and cannot do to help workers hurt by globalization. The damage has been done, and free trade isn't going anywhere. Protectionist measures and narrow attempts to

placate labor unions will do little to help workers who are already hurting or to help others avoid a similar fate. Better to help the unemployed get back on their feet with generous and direct assistance and to create a far stronger safety net to protect future generations of American workers. 🗳️