

GLOBALIZATION AND THE AMERICAN WORKER: LEARNING FROM THE PAST, OPTIONS FOR THE FUTURE

TOWN & GOWN UC SAN DIEGO

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NOVEMBER 14, 2017

NOTE: This document was created by an online link provided to us by Dr. Hanson. It is from another presentation he made in October 2017. We have modified this title page to reflect that he spoke at Town & Gown's November 2017 luncheon.

Political Opposition to International Trade



How Did We Get Here?

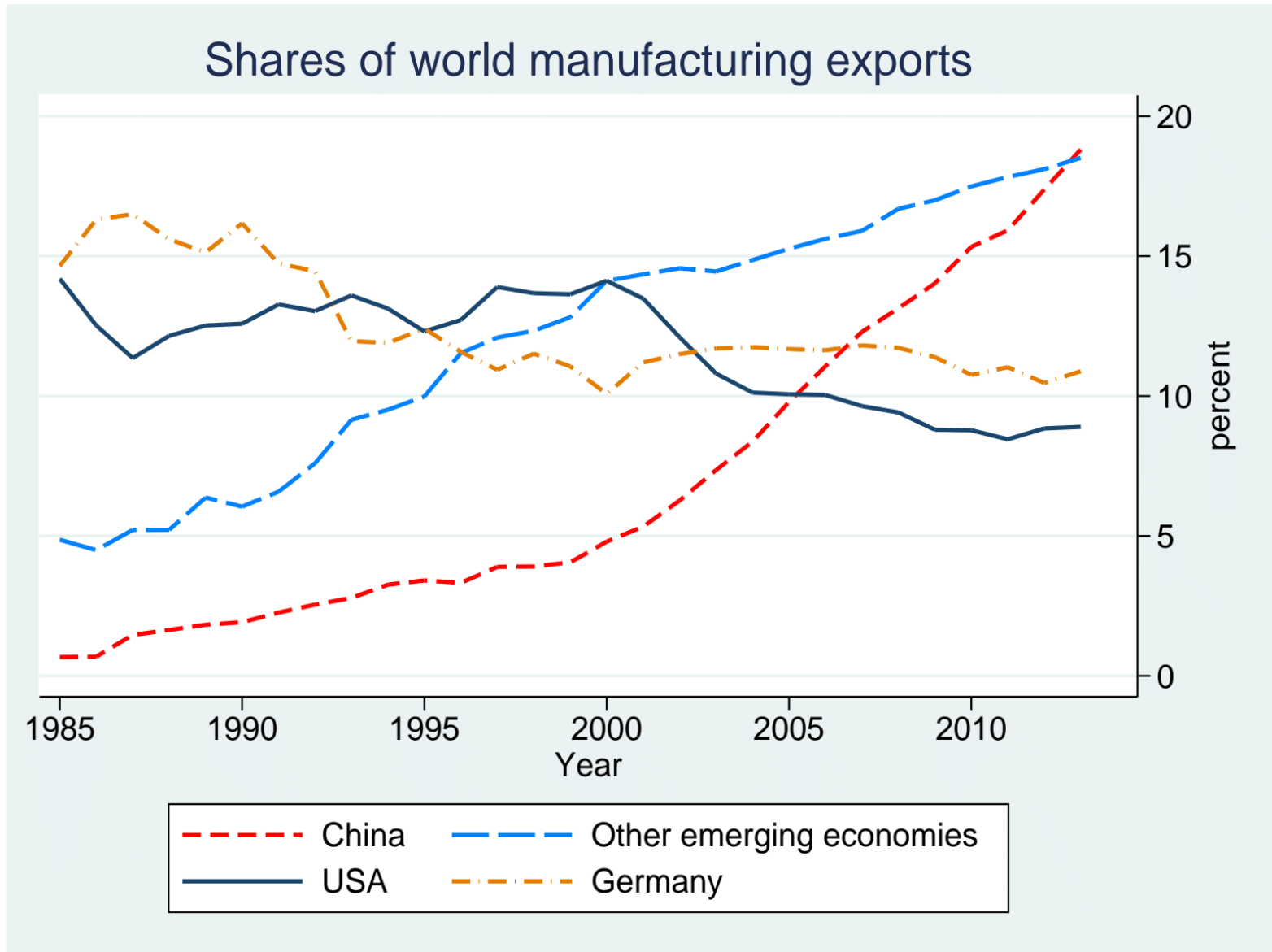
In the '90s, freer trade—embodied in NAFTA & the WTO—were pitched as guarantors of future economic prosperity

- Bill Clinton, NAFTA signing, Dec. 8, 1993

“I believe we have made a decision now that will permit us to create an economic order in the world that will promote more growth, more equality, better preservation of the environment, and a greater possibility of world peace.”

- The reality of how globalization would affect living standards turned out to be a bit more complicated...

The China Trade Shock to Global Manufacturing



The Economic Consequences of Trade

Economists have long known that international trade, while generating aggregate welfare gains, also creates losers

- Paul Krugman and Maurice Obstfeld (1988)

“Owners of a country’s abundant factors gain from trade, but owners of a country’s scarce factors lose... international trade tends to make low-skilled workers in the United States worse off—not just temporarily, but on a sustained basis.”

- But until recently the consensus was that, in practice, trade just hadn’t mattered much for labor-market outcomes in most countries

The Economic Consequences of Trade

The conventional wisdom among economists circa 2005

- ① Trade *had not been a major contributor* to declining manufacturing employment or rising wage inequality in high-income countries
- ② Workers employed in regions specializing in import-competing sectors *could readily reallocate* to other regions if displaced by trade
- ③ Any labor market impacts of trade would be *felt by low-skill workers generally*, not by trade-exposed workers specifically

The momentous impact of China's recent export growth has helped topple this conventional wisdom

Labor-Market Consequences of Greater Import Competition

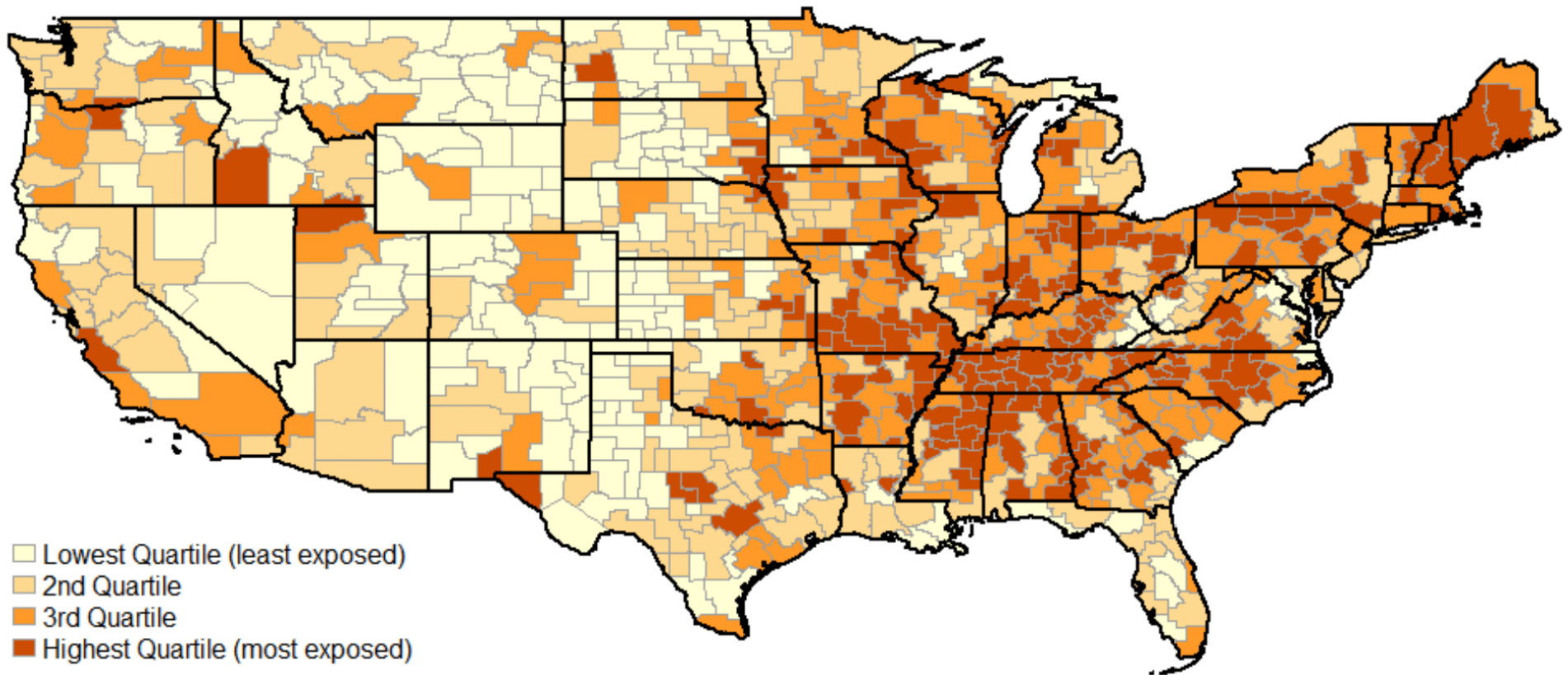
Economic Impacts of Import Competition from China

- **Closure of manufacturing plants** (Bernard Jensen Schott '06), declines in employment (Acemoglu Autor Dorn Hanson Price '16; Pierce Schott '16) in more trade-exposed industries
- **Lower employment**, higher labor-force exit, higher long-run unemployment, greater benefits uptake in more trade-exposed local labor markets (Autor Dorn Hanson '13)
- **Lower lifetime incomes**, greater job churning for workers in more trade-exposed industries (Autor Dorn Hanson Song '14)

Local Labor Market Exposure to Rising Import Competition

Commuting zones by quartile of trade exposure

Trade Exposure by Commuting Zone, 1990-2007



Adjustment to Trade in Local Labor Markets

Active margins of adjustment to greater import competition

- Reductions in manufacturing employment
- Increases in non-participation in the labor force
- Increases in long-run unemployment

Inactive margins of adjustment to greater import competition

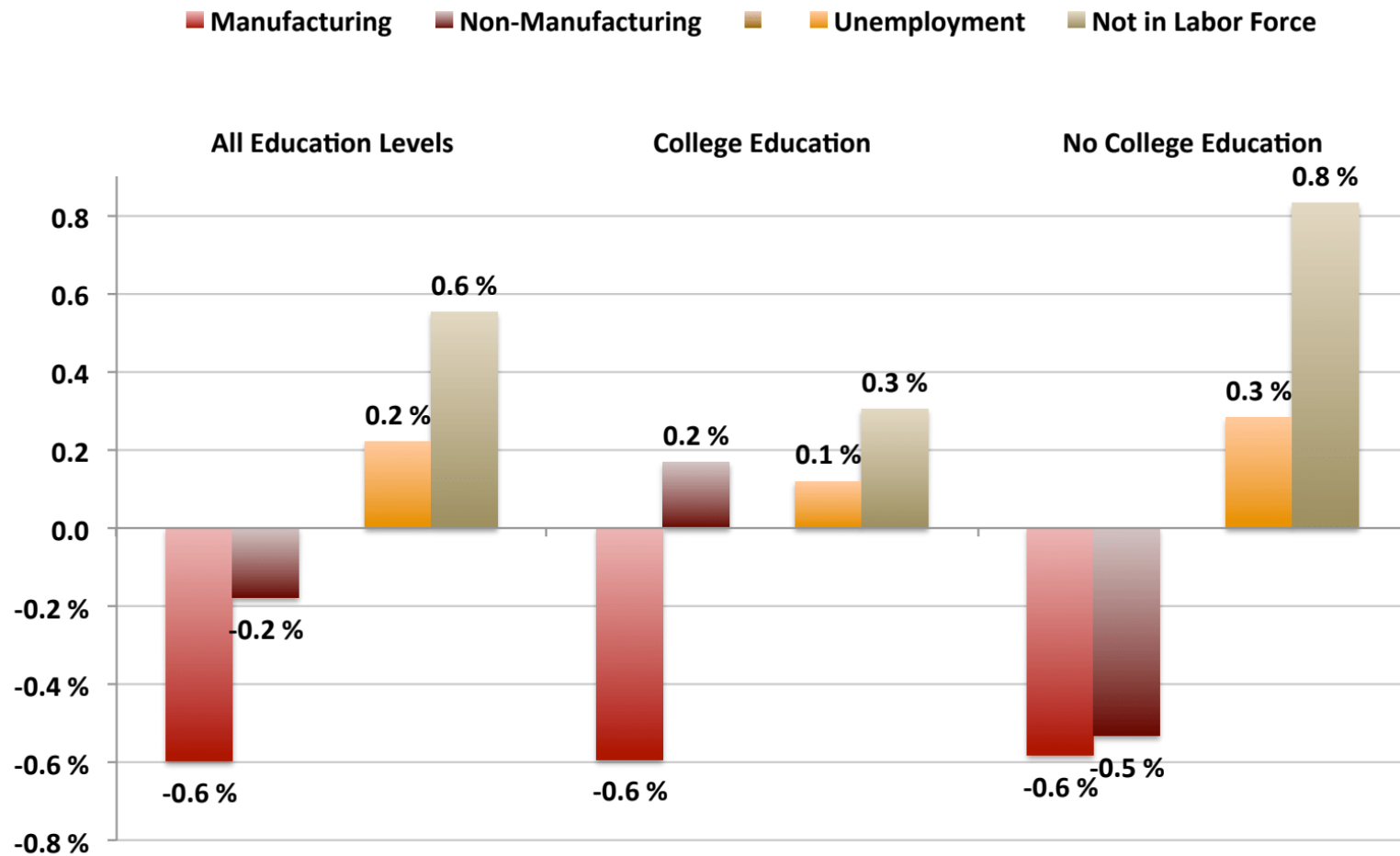
- Little response of interregional migration to trade shocks
 - Movement of labor across areas due to changes in labor demand is slow and incomplete (Blanchard & Katz, Glaeser & Gyourko, Yagan)

Local Labor Market Impacts of Import Competition

Employment impacts overall and by education

Imports from China and Employment Status of Working Age Population within Commuting Zones (1990-2007)

Effect of an \$1000 Per Worker Increase in Imports from China during 1990-2007 on Share of Population in Employment Categories



What Are Impacts on Specifically Trade-Exposed Workers?

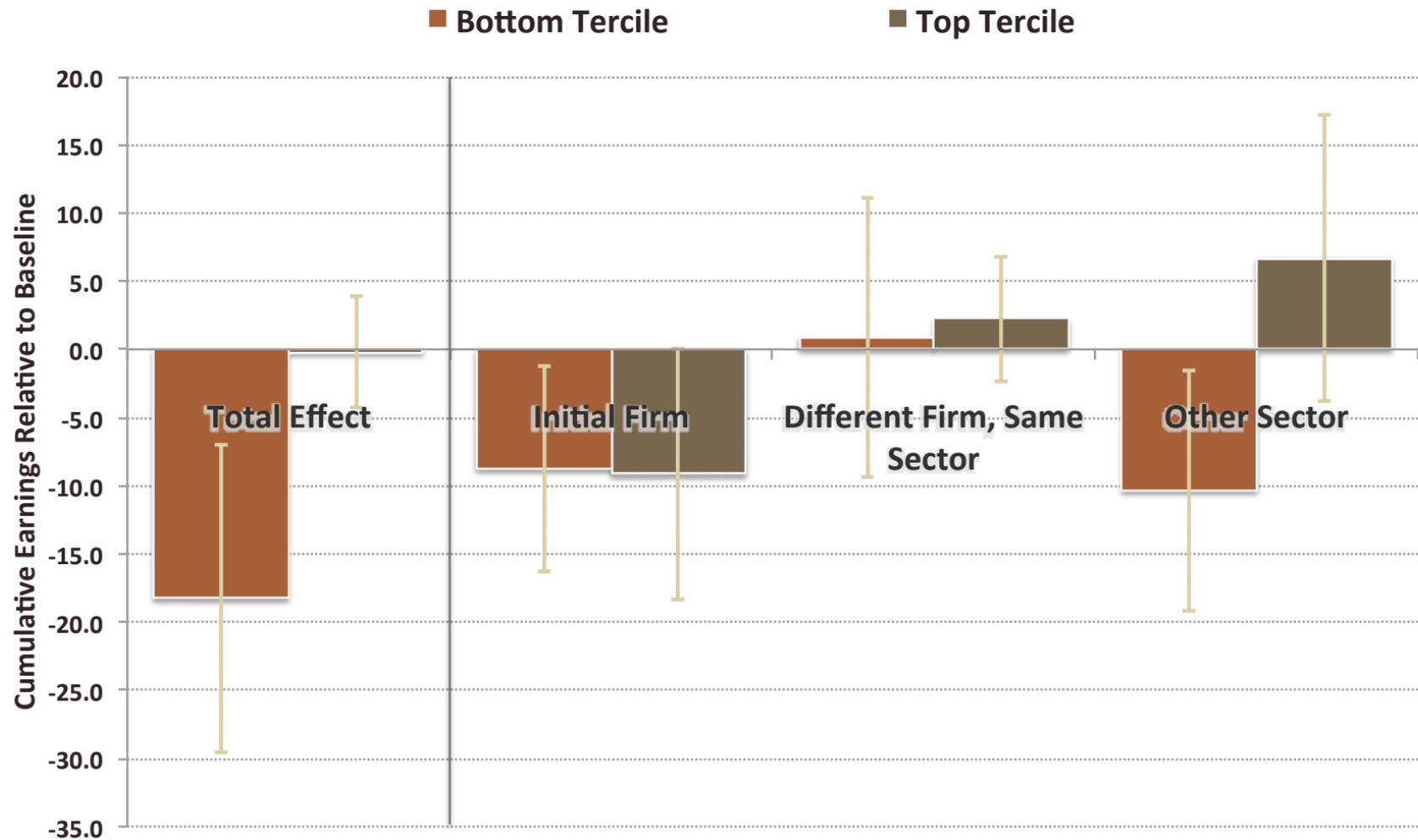
Go back to '91 and consider two observably similar workers
(Autor Dorn Hanson & Song)

- Same age, gender, annual earnings, recent earnings growth, tenure at their employer, size of and wages paid by employer, etc.
- But one works in an industry that will, over the next two decades, be more exposed to the China trade shock
- Over the next 16 years, the initially more-exposed worker will have
 - Lower cumulative earnings
 - More churning between jobs
 - And higher uptake of disability insurance
 - With larger effects for low-wage workers

Impacts of Trade Exposure on Long-Run Earnings

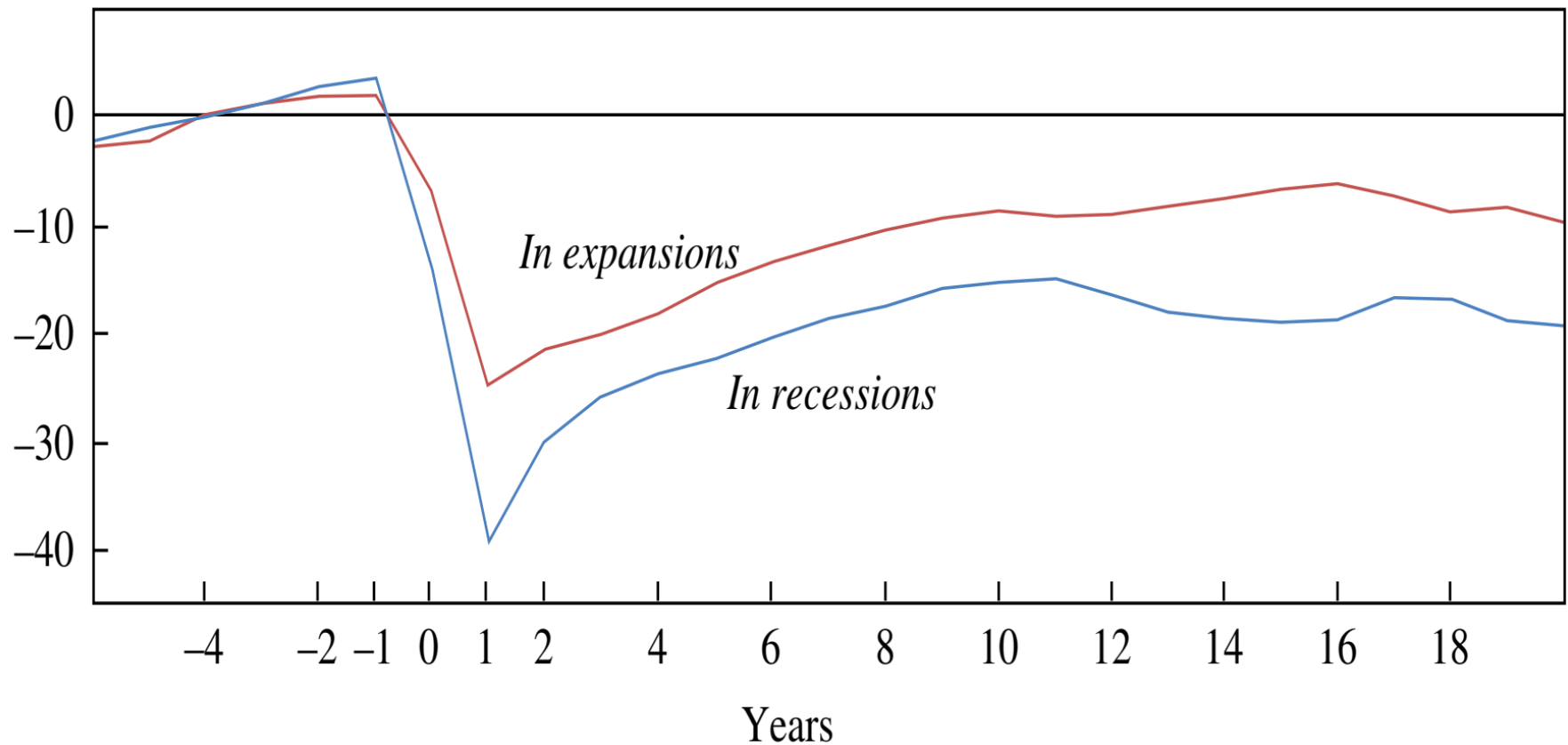
Bottom versus top tercile workers

Impact of Trade Exposure on Cumulative Earnings by Sector:
Workers Initially in Lowest and Highest Earnings Tercile



Scars from Job Displacement: Much Worse in Recessions (*in impacted areas, trade shocks are like a local recession*)

Average Earnings Losses of Displaced Workers as a Percent of Pre-Displacement Earnings



Davis and von Wachter '2011

Adjustment Versus Steady State

The Short and Medium Run: Job Displacement

- Costs of job loss are sharp, steep, and scarring to displaced workers
 - Concentration matters: A \$10,000 loss suffered by one worker is a *greater social cost* than a \$1 loss suffered by 10,000 workers

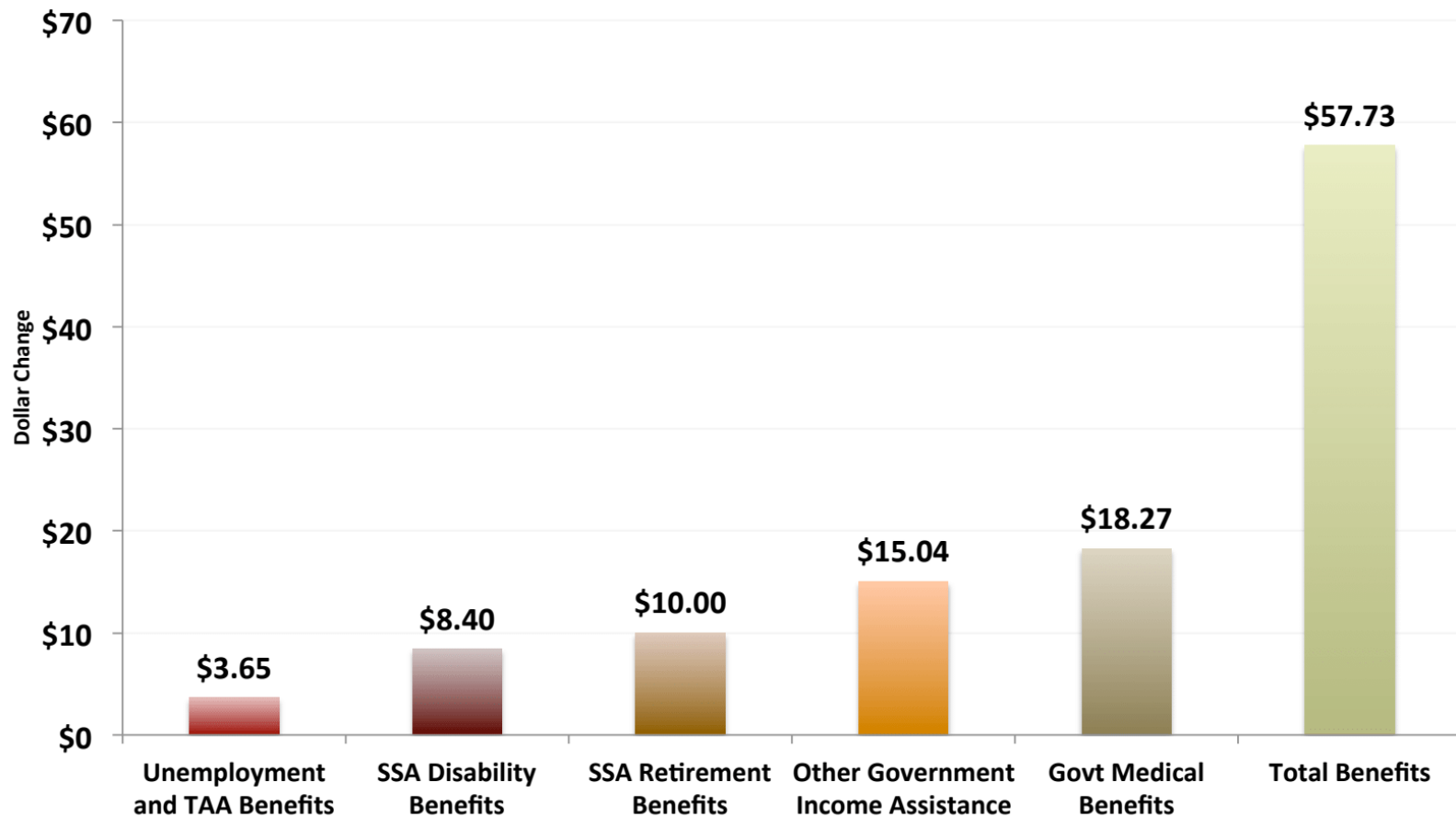
The Long Run: Adjustment in Prices and Wages

- Price index declines, wages for some workers fall
 - Long run wage impact of the China shock appears to be small
- GE analyses show that LR gains from trade with China are positive
 - Hsieh & Ossa, Caliendo Dvorkin & Parro, Galle Rodriguez-Clare Yi

Policy Responses to Job Displacement: Uptake of Benefits

Increase in government benefits varies sharply by program

Effect of an \$1000 Per Worker Increase in Imports from China during 1990-2007 on Dollar Change of Annual Transfer Receipts per Capita



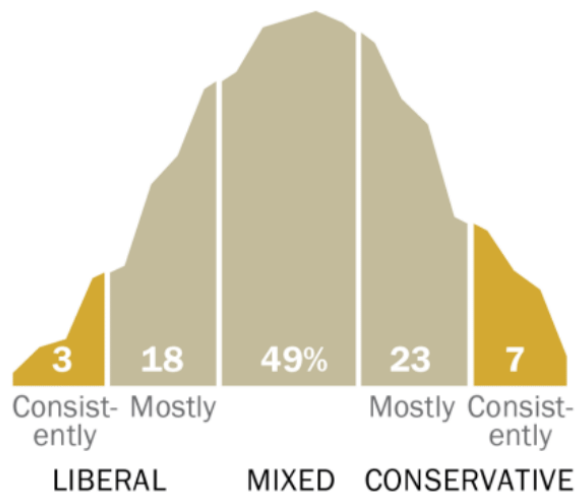
Political Responses to Job Loss: Greater Polarization

What Polarization Looks Like

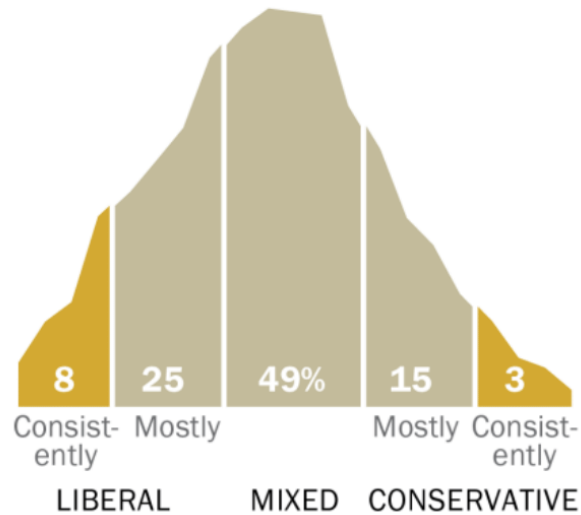
Growing Minority Holds Consistent Ideological Views

On a 10-item scale of political values, % who are...

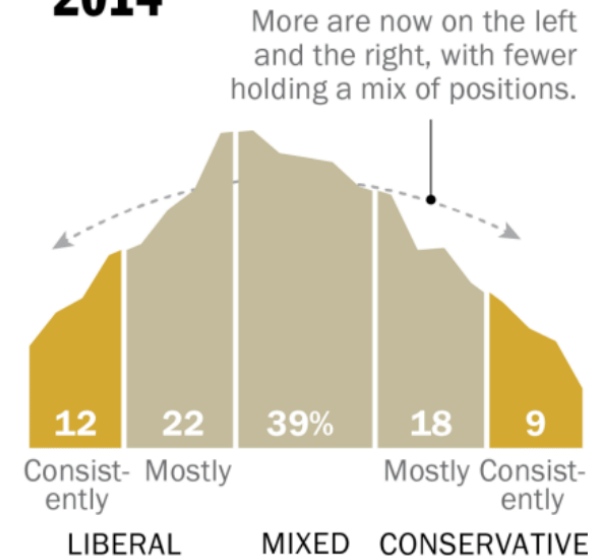
1994



2004



2014



Source: 2014 Political Polarization in the American Public

Notes: Ideological consistency based on a scale of 10 political values questions. (See Appendix A for details on how the scale is constructed and how scores are grouped.)

Impact of Trade Exposure on Presidential Voting

Counterfactual Change in '16 Voting under Alternative Shocks

Presidential Election 2016: Counterfactual Republican Vote Margins in Closely Contested States								
	Actual Republican		Counterfactual if Chinese Import Growth were...					
	Margin		10% Smaller		25% Smaller		50% Smaller	
	Votes	% Margin	Votes	% Margin	Votes	% Margin	Votes	% Margin
Georgia	215,380	(5.28%)	202,810	(4.97%)	183,956	(4.51%)	152,531	(3.74%)
Arizona	84,904	(4.12%)	77,860	(3.78%)	67,295	(3.27%)	49,685	(2.41%)
North Carolina	177,009	(3.78%)	141,689	(3.03%)	88,708	(1.89%)	407	(0.01%)
Florida	119,489	(1.27%)	100,727	(1.07%)	72,584	(0.77%)	25,679	(0.27%)
Pennsylvania	73,224	(1.24%)	52,630	(0.89%)	21,739	(0.37%)	-29,746	(-0.50%)
Wisconsin	24,081	(0.81%)	11,067	(0.37%)	-8,455	(-0.28%)	-40,991	(-1.38%)
Michigan	13,107	(0.27%)	-3,979	(-0.08%)	-29,608	(-0.61%)	-72,324	(-1.49%)
New Hampshire	-2,687	(-0.37%)	-6,830	(-0.94%)	-13,045	(-1.80%)	-23,404	(-3.22%)
Minnesota	-43,783	(-1.49%)	-54,009	(-1.84%)	-69,347	(-2.36%)	-94,911	(-3.23%)
Electoral Votes Trump	306		290		280		260	
Electoral Votes Clinton	232		248		258		278	

Notes: The computation of the counterfactual is based on the estimate that a growth of import penetration by one percentage point reduces the Republican share of the two-party vote by 1.67 percentage points. Numbers in parentheses indicate the vote margin in favor of the Republican candidate as a percentage of the total vote.

Policy Discussion

Why are scarring effects of manufacturing job loss so severe?

- Manufacturing is distinct among sectors in paying relatively high wages to less-educated males
 - Job loss lowers marriage rates, raises fraction of kids living in poverty and in single-headed households
- Mobility response of less-skilled workers to job loss is weak
 - Existing policies disincentivize finding new employment (eg, SSDI)
 - Weaker local labor demand often means lower housing prices
 - Dual income HHs, single parenthood complicate geographic mobility

Policy Options

What might effective alternative policies look like?

- **Wage insurance**
 - May help workers leave declining regions and strengthen their incentive to stay in the labor-force (relative to disability insurance)
- **Expanded negative income tax (eg, EITC)**
 - May help insulate workers from reductions in labor demand, endure wage cuts at firms at risk of closure

Discussion

China trade impacts of future will look different from past

- The worst of the China shock is over
 - China's "transitional" growth is coming to an end, as it begins to confront the challenges of being a middle-income nation

Rise of right-wing populism is not so surprising in retrospect...

- Inattention to negative labor-market consequences of trade have helped provoke rage among less-educated (white) males
 - Surprisingly, the political consequences of trade include movement to the extremes, which may worsen political dysfunction