

# ECO 445/545: International Trade

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Spring 2016

# Winners and Losers from Trade

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Quote from President of Carroll County Chamber of Commerce

I cannot tell you if [NAFTA] is good for the country,  
but I can tell you it's not good for Carroll County

[Source: The Atlantic](#)

Largest employer in Carroll Country prior to NAFTA was [Henry I. Siegel \(H.I.S.\) Jeans](#).

- Third largest manufacturer in America of Woman's jeans in 1980's.
- NAFTA implemented in 1994
- Company shut down all production and sales in United States by 2000.

# H.I.S. Jeans Factory, Post-NAFTA

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# Opinions on Free Trade

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## **NAFTA was good for the United States**

- Economists: 95% Agree, 5% Uncertain, 0% Disagree
- General Public: 46% Agree, 15% Uncertain, 39% Disagree

## **The “Buy American” Local Content Requirements in Stimulus Package, Good for Employment**

- Economists: 11% Agree, 31% Uncertain, 58% Disagree
- General Public: 75% Agree, 10% Uncertain, 15% Disagree

# Differing Opinions in Other Fields

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## Safe to Eat Genetically Modified Foods

- AAAS Scientists: 88% Agree
- General Public: 37% Agree

## Climate Change Mostly Due to Human Activity

- AAAS Scientists: 87% Agree
- General Public: 50% Agree

# Why the Disagreement on Free Trade

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Losers from Free Trade are highly visible

- Factories close, people lose jobs, local communities are devastated
- Losses happen suddenly, concentrated in short period of time

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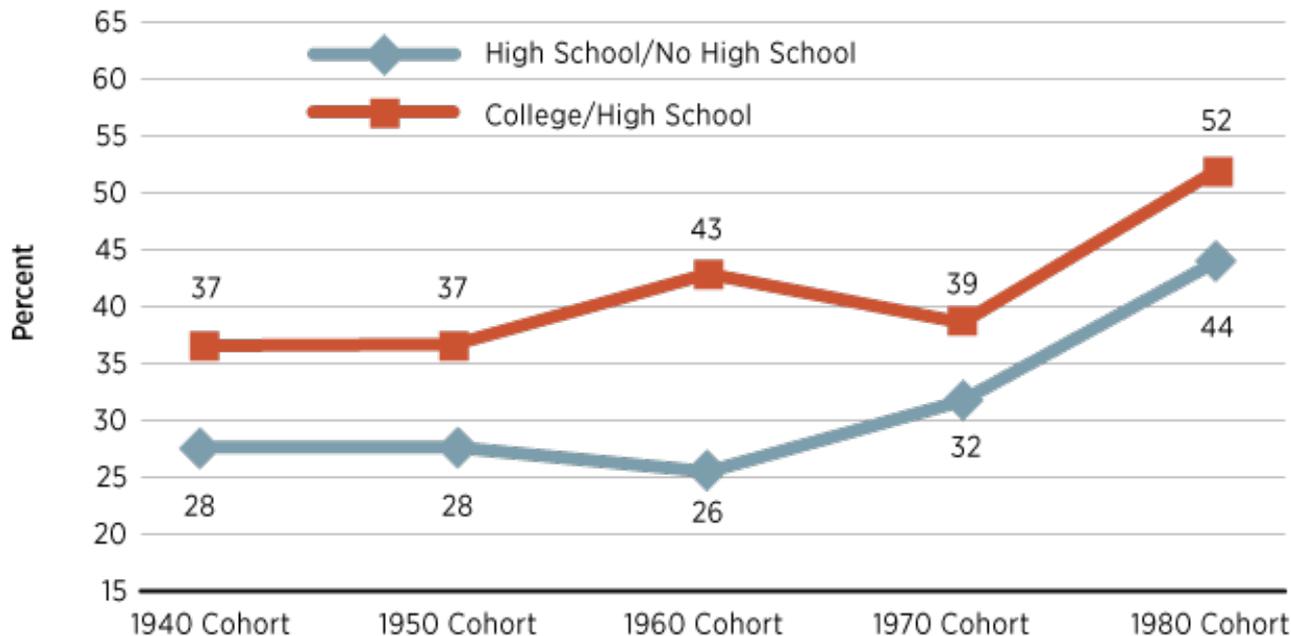
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Winners from Free Trade are less visible

- Gains spread out over more people (Powerball winner more visible than losers)
- Gains and sectoral reallocation are often spread out over time
- Free trade partially responsible for historic benefits of a college education, since U.S. has comparative advantage in high tech industries. Public may not make this connection.

# Benefits of College Historically High

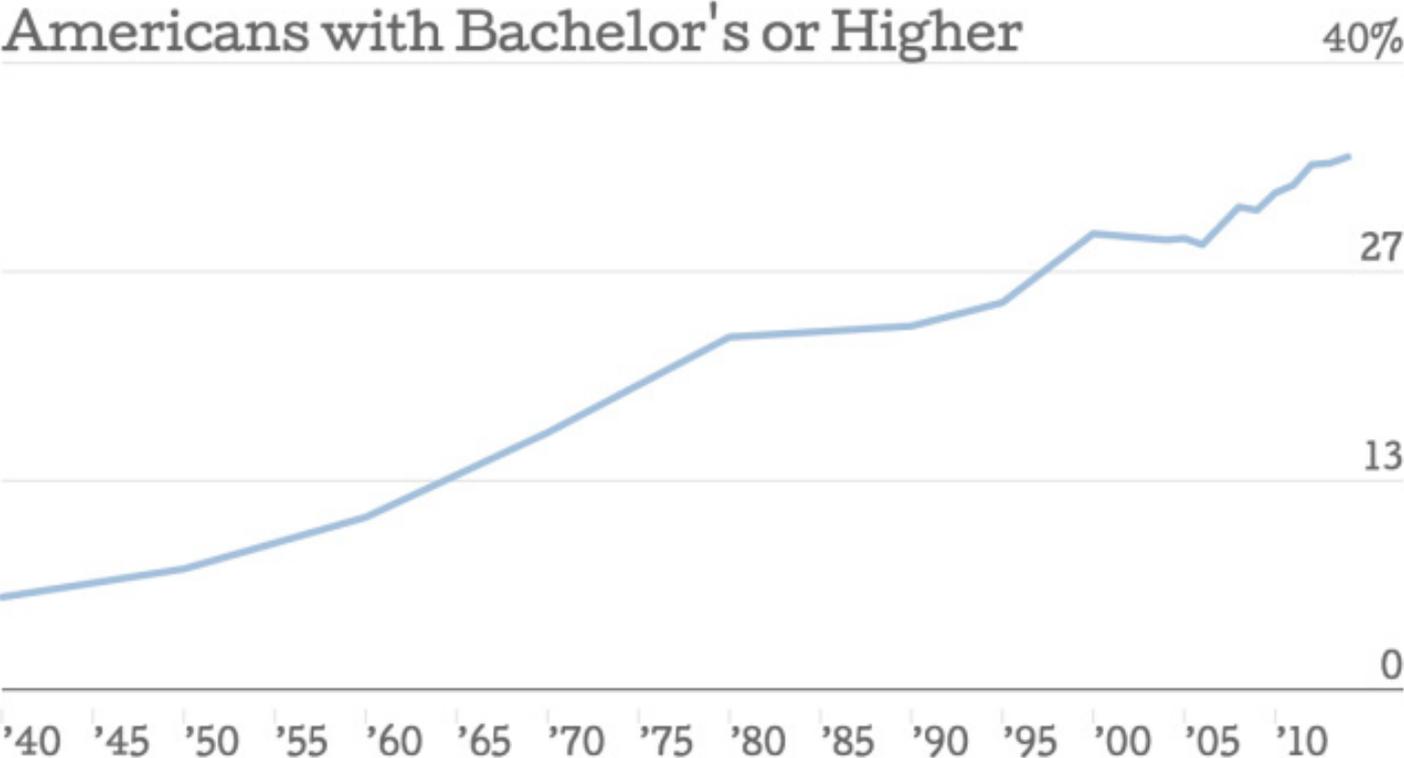
## Education Premiums for White Men by Cohort



SOURCE: Calculations made using census data from IPUMS.

■ FEDERAL RESERVE BANK OF ST. LOUIS

# Number of Americans with College Historically High



USNews

Lindsey Cook for USN&WR; Source: NCES

# Why the Disagreement on Free Trade

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Economists are more internationally diverse than general population

- Few Americans oppose free trade among U.S. states, even though it has similar impact
- Economists care more than the general public about gains that go to other countries

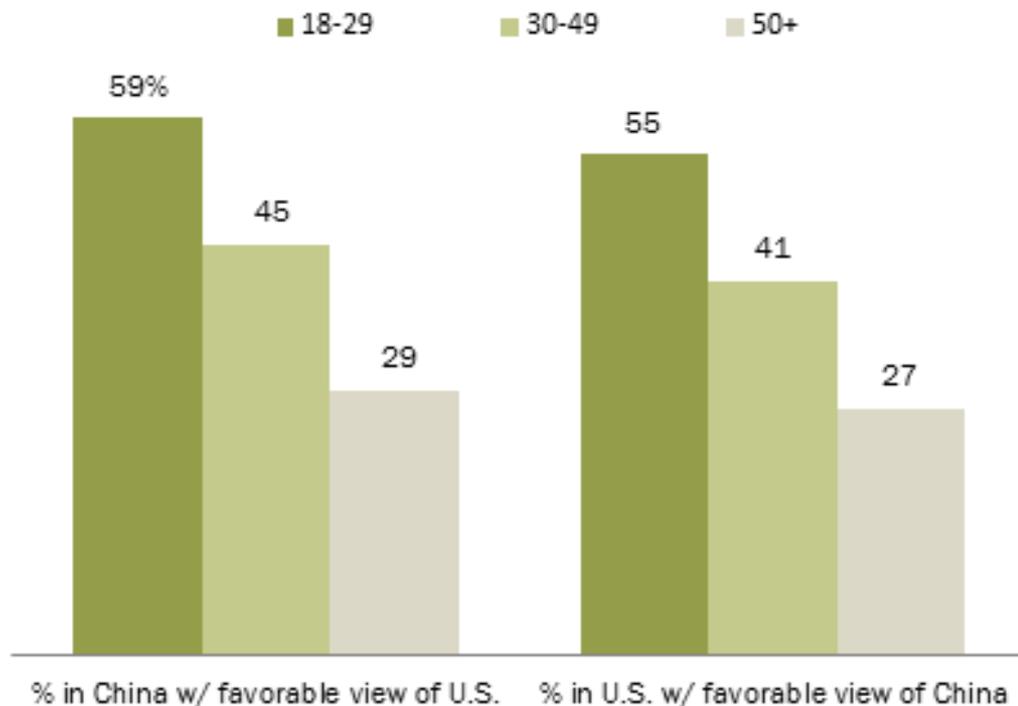
Percent of Americans that think trade with China is beneficial / That have favorable view of China

- Ages 18-29: 56% / 55%
- Ages 30-49: 43% / 41%
- Ages 65+: 37% / 29%

# Why the Disagreement on Free Trade

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## Younger Generation in China and U.S. Holds More Positive View of the Other Country



# Views Evolve Over Time, Differ By Partner

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In 1970's Toyota revolutionized car manufacturing process (Just-in-Time Production System)

- American car manufacturers could not compete. Didn't adopt practices until the 1980's
- Anti-Japan sentiment was very high: [Murder of Vincent Chin](#)

Japan agreed to voluntary limit exports of cars in response to U.S. pressure

- U.S. could not put tariffs on Japanese cars due to GATT
- Boosted profits of domestic car producers. Net negative welfare due to higher prices faced by consumers [Berry, Levinsohn, Pakes (1999)]

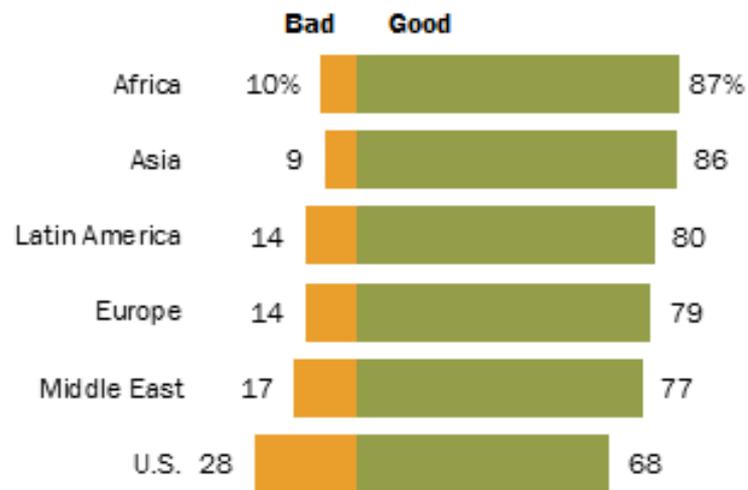
Today: 75% of Americans think trade with Japan is good for U.S. (vs 45% for trade with China)

# Views on Trade Differ by Country

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## Growing Trade Seen Positively

*Growing trade and business ties with other countries is \_\_\_ for our country*



Note: Median percentages by region. Russia and Ukraine not included in Europe median.

Source: Spring 2014 Global Attitudes survey, Q27.

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# The Destructive Nature of Economic Progress

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Economist Joseph Schumpeter in 1942

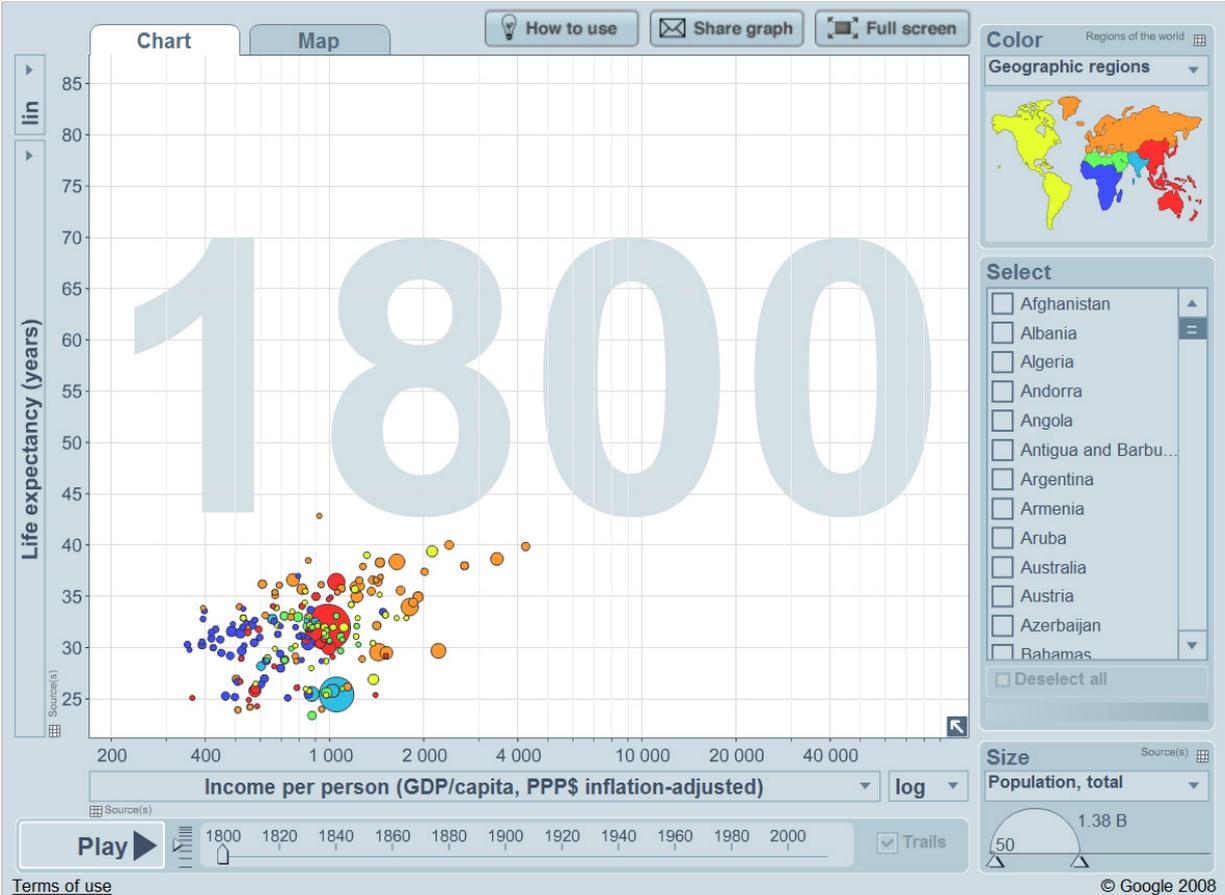
The gale of **creative destruction** ... revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one

Source: [\*Capitalism, Socialism, and Democracy\*](#)

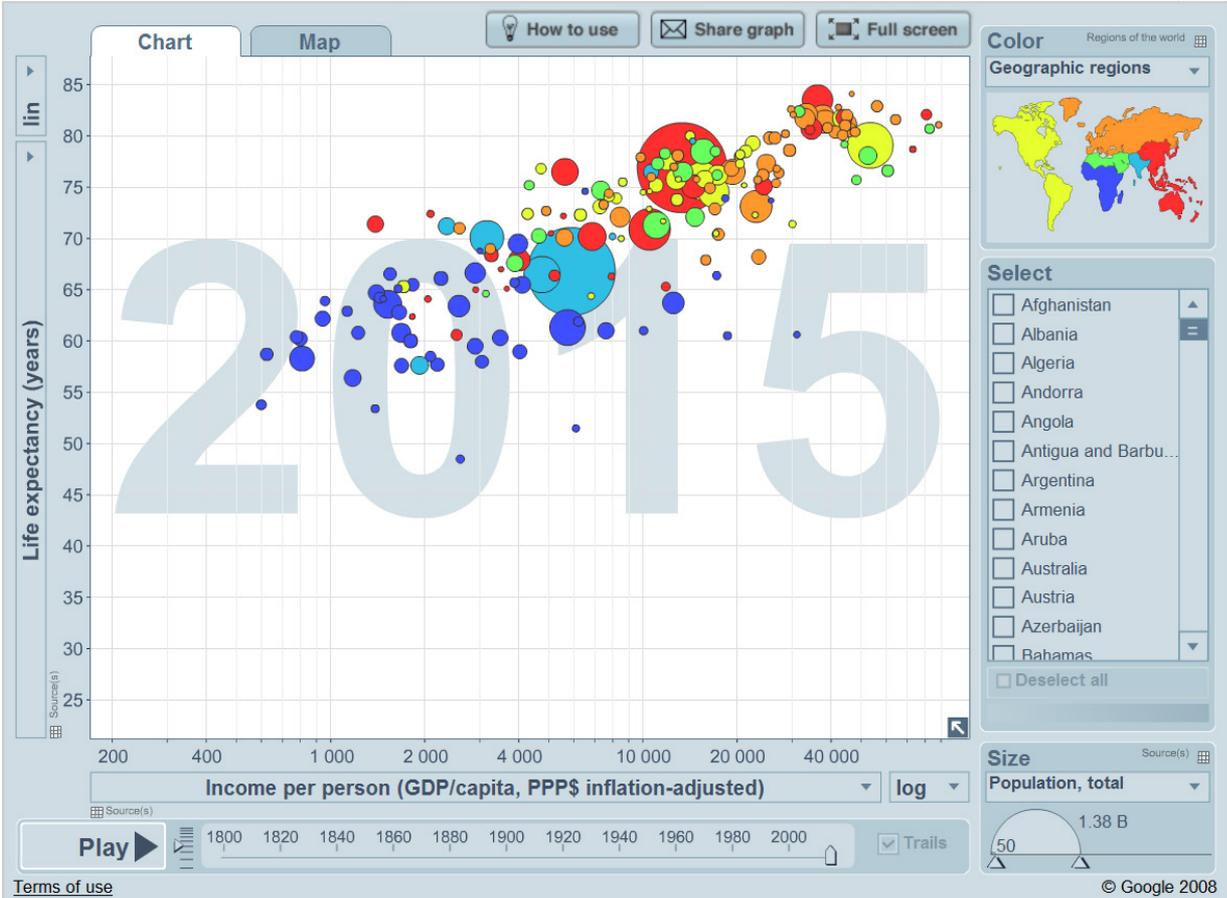
Economic progress is violent and disruptive

- The gains from economic progress are immense
- Billions of people have been lifted out of extreme poverty, saving lives

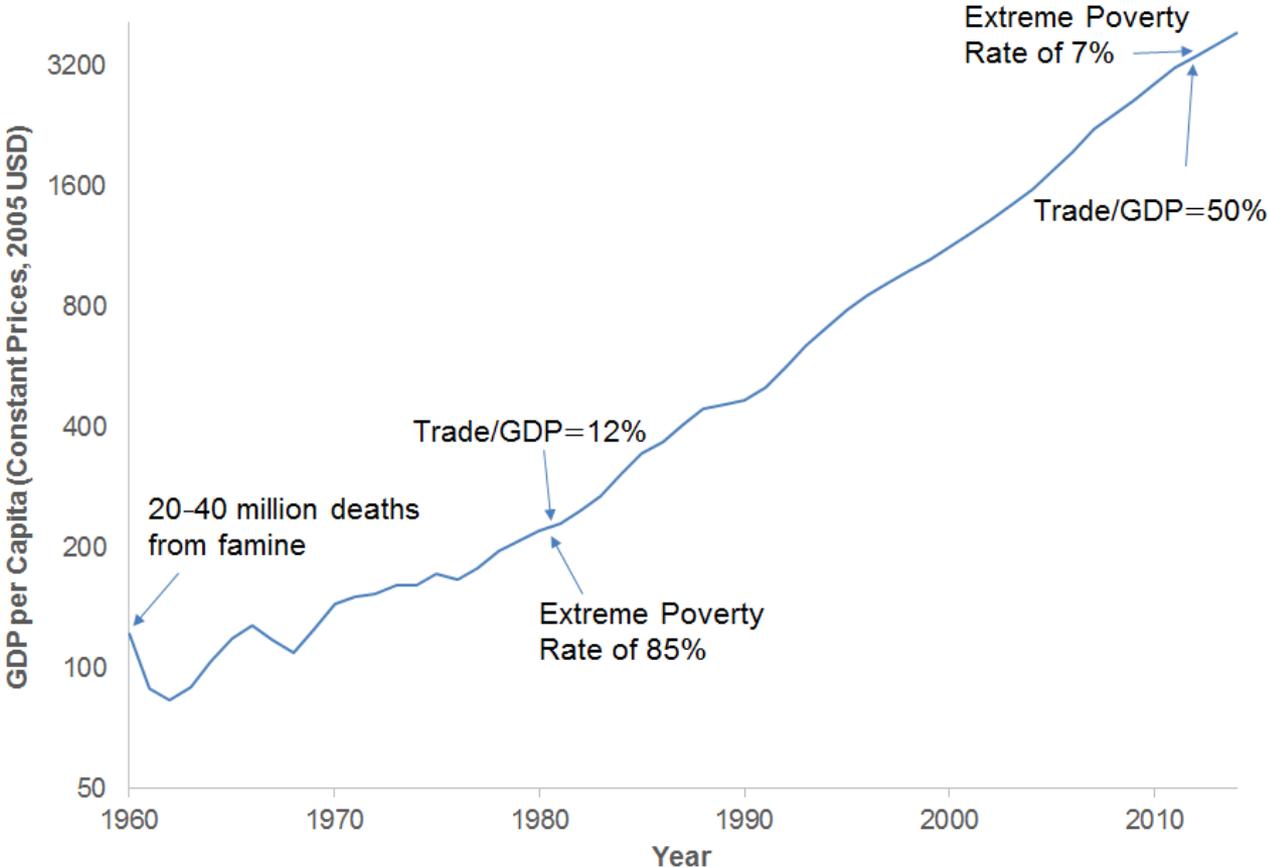
# Life Expectancy vs Real Income per Person: 1800



# Life Expectancy vs Real Income per Person: 2015



# GDP per Capita for China, 1960-2014



# What About the Losers?

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Losers from free trade suffer real harm

- Despite this, Economists still overwhelmingly support free trade
- Theory and data suggest benefits outweigh the costs, especially over long run
- Not politically feasible to completely compensate losers of trade, but can lessen blow

# First Best versus Second Best

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International Trade does potentially have undesirable consequences

- May increase inequality
- Falling wages for less skilled individuals in U.S.

Better ways to address those consequences than stopping free trade

- Can address inequality and falling wages without losing benefits of comparative advantage
- In practice, protectionism rarely protects the weak, more often protects the powerful

# Trade Adjustment Assistance (TAA) Program

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Program administered by the federal government to assist people who lost jobs due to trade

- \$1 billion in benefits paid to 280,000 displaced workers in 2010

Potential benefits include

- Job training + relocation and job search costs
- Wage supplementation
- Subsidized health insurance

This is on top of other benefits such as unemployment benefits, SNAP, etc

# Increased Imports Lead to Increased Government Transfers

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



Autor, Dorn,  
Hanson (2015)

# How do Economists Study the Impact of Trade?

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Models you learn as undergraduates/MA students not well suited to these questions

- They are intuitive and simple, which makes them good as introductions to a topic
- Partial equilibrium graphical analysis not well suited for quantitative work
- Difficult to generalize and add features to this model

Economists use modern general equilibrium models

- Need to take the model seriously and analyze the data carefully
- Atheoretical empirical work is dangerous. Need theory to address endogeneity issues.

# What Features Do we Need in Our Model?

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To do welfare & counterfactual analysis, need to model what agents want and how they behave.

- We have the basis for this in the framework we've been working with

Our basic general equilibrium model has key three elements

- Consumers Problem
- Firms Problem
- Market Clearing

# What Features Do we Need in Our Model?

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Our 2x2 Ricardian GE model is still not suited to thinking about Carroll County

- Only two countries and two goods
- Completely inelastic labor supply/no unemployment
- All consumers are identical, no sense of specialized labor
- All firms are identical within a country
- No sense of local labor markets within a country

We can address all of these issues, keeping the same basic framework

# Examples of Papers that Deal with Trade and Unemployment

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**The China Syndrome** by Autor, Dorn, Hanson (2013)

- Detailed data for trade, employment, & transfers for commuting zones in the United States
- Examine effect of increase import exposure on government benefits and unemployment
- Model welfare using a multi-country ricardian framework and theory based gravity regressions

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## **Trade Reforms, Foreign Competition, and Labor Market Adjustments in U.S.** by Kondo (2015)

- Dynamic model of trade and local labor markets
- Model includes frictions that generate endogenous unemployment
- Uses TAA data to calibrate model and estimate welfare effects of trade in medium run