

# Trade and Good Jobs for the 99 Percent: Debating Trade, the Elites, and Jobs

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*"Globalization has made the financial elite who donate to politicians very wealthy. But it has left millions of our workers with nothing but poverty and heartache."*<sup>1</sup>

-Donald Trump

Opponents of trade and trade agreements like the Trans-Pacific Partnership (TPP) often frame the trade debate as a battle between "the elites" and average Americans, especially American workers.<sup>2</sup>

Trade skeptics charge that America's pursuit of rules-based, open trade is essentially an exercise that's by and for big multinationals and the Wall Street one percent, while leaving everyday American workers holding the bag. Critics like Donald Trump and Bernie Sanders claim that Americans would be better served by upending trade pacts like NAFTA, scrapping proposed deals like the TPP, and jacking up tariffs—including Trump's proposed duties of 45 percent on Chinese imports and 35 percent on goods from Mexico.<sup>3</sup> These tactics, they argue, would pressure trade partners and U.S. multinationals and "bring back" American jobs.

But would a shift toward protectionism really help the 99 percent? Would such policies support more and better jobs for middle class workers? Guarantee a more prosperous and inclusive economic future for everyday Americans? If not, what policies would?

To be sure, large companies—which generate two-thirds of America's exports and also millions of jobs—benefit significantly from open global markets. And it's undeniable that some American workers—especially those with more limited skills—have lost out to global competition.

At the same time, however, there's widespread agreement among economists that open trade is a major net plus for the American economy.<sup>4</sup> As others have detailed, trade raises U.S. living standards, significantly boosting the buying power of middle- and lower-income American consumers,<sup>5</sup> while also playing a vital role in lifting some one billion people worldwide out of extreme poverty.<sup>6</sup>

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As we detail below, trade's significant benefits are also broadly shared far beyond the elites and big companies by millions of American workers in good jobs. New trade agreements like TPP, together with advances like inclusive, globalized e-commerce, have significant potential to further "democratize" trade for an even broader cross section of everyday Americans.

## ASSESSING TRADE'S IMPACT ON AMERICAN JOBS

Jobs are the focal point of the populist case against trade.

In the view of critics, current trade policies enrich multinationals and Wall Street elites at the cost of millions of jobs for hardworking Americans. But the relationship between trade and jobs is far more complex—and far more positive—than populist critics suggest.

### *Trade, Productivity, and Lost Jobs*

Though the precise impact of trade on jobs is the subject of considerable debate among economists, it's undeniable that trade causes job losses, especially for less skilled U.S. workers in sectors like furniture and textile manufacturing.<sup>7</sup> A recent study by economists David Autor, David Dorn, and Gordon Hanson estimates, for example, that the "import shock" of trade with China between 1999 and 2011, resulted in a net loss of some 2.4 million U.S. jobs. And, because these job losses were concentrated in certain regions and sectors—and generally hit lower-skill, lower-income workers—they had significant impacts on both individual workers and broader communities, as well.<sup>8</sup>

It's important, however, to view trade-related job losses in the broader context of a highly dynamic U.S. economy that creates and eliminates millions of jobs each month. In 2015, for example, U.S. workers experienced 59.1 million job separations (36 percent of which were layoffs and discharges) and 61.7 million hires.<sup>9</sup> Studies show that import competition accounts for a relatively small share of total U.S. job displacement.<sup>10</sup> According to the Bureau of Labor Statistics, for example, import competition and overseas plant relocations accounted for less than 3 percent of job separations due to mass layoffs between 1996 and 2011.<sup>11</sup> And, notably, there is actually a negative correlation between the trade deficit and the unemployment rate—i.e., unemployment tends to fall when the trade deficit is rising and to rise when the deficit is falling.<sup>12</sup>

It's also true that trade is often a convenient scapegoat for much broader economic dislocations that are primarily caused by other factors, especially increasing productivity and advancements in technology. A closed factory is often a compelling exhibit for trade skeptics—even if the factory was shuttered or outdated years before the advent of modern trade deals like NAFTA.<sup>13</sup>

Trade critics like Trump and Sanders, for example, often blame the long-term decline in U.S. manufacturing employment on NAFTA and other trade agreements.<sup>14</sup> But most of this decline—like similar long-term declines in

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other high-income economies—is due to increased worker productivity, not trade.<sup>15</sup> Manufacturing's share of U.S. employment has been falling steadily since the 1950s—long before NAFTA or the rapid growth of trade from China.<sup>16</sup> At the same time, U.S. manufacturing output is higher than ever because automation and other modern production processes have made American workers significantly more productive—and higher paid.<sup>17</sup> For example, a recent analysis by Ball State University's Center for Business and Economic Research estimates that productivity growth caused 85 percent of job losses in manufacturing between 2000 and 2010, compared with 13 percent caused by trade.<sup>18</sup>

### *Good Jobs in Exporting, Importing, and Supply Chains*

The focus by critics on trade and job losses can obscure a larger reality—trade's undeniable positive effects in supporting tens of millions of good U.S. jobs. A recent, compelling story about how imports caused the loss of furniture manufacturing jobs in North Carolina, for instance, largely ignored the fact that trade and foreign investment are also responsible for many more well-paying manufacturing, research, and services jobs in the same region.<sup>19</sup>

Indeed, economists estimate that 41 million U.S. workers—more than one-in-five employed Americans—work in jobs that depend on international trade. Importantly, this is a *net* estimate that accounts for jobs “lost” to trade. And, trade-related jobs are an increasingly important driver of the U.S. economy. Over the last decade, trade-supported jobs have grown by over 30 percent—three times faster than American job growth generally.<sup>20</sup>

U.S. imports support—again on a net basis—some 16 million jobs for American workers, including millions of good jobs in sectors ranging from consumer and business services to finance and retail trade. For example, imports support hundreds of thousands of well-paying jobs in transportation and warehousing, where workers earn more than the national average—despite the fact that 49 percent of the sector's workers have a high school diploma or less. And the vast majority of American firms that import directly are also small businesses, with over half having fewer than 50 employees.<sup>21</sup>

Many other Americans work in jobs that depend vitally on imports. About half of U.S. goods imports consist of competitively priced “intermediate goods” used by American workers to produce American-made products—including imported fertilizer used by our farmers and parts and components used by U.S. manufacturing workers.<sup>22</sup>

U.S. exports are also a major source of good middle class jobs. The U.S. Commerce Department estimate that exports support 24 percent of jobs in U.S. agriculture and 26 percent U.S. manufacturing employment, including over a third of U.S. jobs in the production of high-value goods like aircraft, chemicals, computers, and electronics (See Table 1). Exports of both goods and services also support millions of American services jobs, in sectors including business services, wholesale and retail trade, and transportation and warehousing.<sup>23</sup>

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Table 1: Industries with the Largest Share of Employment Supported by Exports, 2014<sup>24</sup>

Industry	Industry Jobs Supported by Exports	Share of Industry Employment
Aerospace and other transportation equipment	298,967	44%
Computer and electronics	425,465	41%
Primary metals	144,563	37%
Chemicals	271,149	34%
Electrical equipment, appliances, and components	125,394	33%

Source: International Trade Administration

Many other Americans produce goods or provide services that are incorporated through global supply chains into foreign-made products. Goods imported into the United States contain an average of 25 percent U.S. content, in the form of American parts and components that were originally made here and shipped abroad.<sup>25</sup> For imports from Mexico, the U.S. content averages an astounding 40 percent.<sup>26</sup> A Mexican-assembled Honda CR-V, for example, contains 70 percent U.S. and Canadian parts, including a motor and transmission made by American workers.<sup>27</sup>

Export-related jobs, on average, also pay more than other jobs. A worker in an export-intensive industry makes up to 18 percent more than his or her counterpart in industries that are not export-intensive. And U.S. export growth over the past two decades translates to about \$1,300 in additional pay annually for a typical middle class worker.<sup>28</sup>

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### *The Perils of Protectionism for American Workers*

Critics claim that retreating from rules-based, open trade and enacting protectionist trade policies would bring jobs back to America. But erecting trade barriers would do nothing to help the vast majority of workers who have been negatively impacted technological change, while making things much worse for the many Americans whose jobs depend—directly and indirectly—on trade.

High duties or other import barriers might cause the return of some jobs in historically less-productive, trade-impacted sectors that employed lower-skilled workers, like textile and furniture manufacturing.<sup>29</sup> However, even with the artificial support of high trade barriers, continuing innovation in production practices would mean that these sectors would employ far fewer workers than in the past.

More importantly, because trade barriers are such blunt economic tools, supporting jobs in certain sectors through protectionism would impose unacceptable costs on many other Americans.<sup>30</sup> Studies show that import barriers designed to protect jobs in one industry quite often result in a net loss of overall U.S. jobs—including the loss of well-paying trade-related jobs—as well as lost jobs and higher prices for many other Americans.<sup>31</sup>

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Indeed, ill-considered protectionist proposals like upending NAFTA or slapping high tariffs on imports would severely impact millions of Americans whose livelihoods depend on trade and global supply chains.

Experts believe that North America's highly integrated auto sector has played a critical role in preserving hundreds of thousands of good U.S. jobs that might otherwise have gone to China or elsewhere in Asia.<sup>32</sup> The region's highly complex automotive supply chains—which can cause vehicle parts and components to cross U.S. borders an estimated *eight times*—would be economically impossible without NAFTA's duty-free benefits.<sup>33</sup> Japan's 2011 earthquake and tsunami—which resulted in worldwide shortages of certain automotive sensors, microprocessors, and specialty coatings—starkly illustrated how even limited disruptions in global supply chains can lead to production slowdowns and worker layoffs in the United States.<sup>34</sup>

Protectionist policies that disrupt trade relationships with Mexico and other key trade partners would cause an economic tsunami of far greater impact. And millions of American middle class workers in a wide range of economic sectors would be its victims.<sup>35</sup>

New protectionist measures would also almost certainly lead to retaliation by trading partners against U.S. exports, threatening well-paying, export-related, middle class jobs in U.S. manufacturing, services, and farming.<sup>36</sup> In recent years, for instance, Mexico imposed targeted, World Trade Organization-permitted import duties on 99 U.S. products—including apples, appliances, cherries, and cosmetics—in retaliation for U.S. failures to follow NAFTA obligations on cross-border trucking.<sup>37</sup> This relatively limited dispute, and Mexico's selective retaliation, put an estimated 25,000 U.S. jobs at risk.<sup>38</sup> A broader economic and trade war with America's major trading partners would threaten millions more.

All told, Moody's Analytics estimates that the combined effects of Trump's proposed trade taxes on China and Mexico and expected foreign retaliation would cause up to four million Americans to lose their jobs. And the resulting economic downturn would prevent the creation of an additional three million more.<sup>39</sup>

## HELPING MORE AMERICAN WORKERS PROSPER IN A GLOBAL ECONOMY

Despite trade's support of tens of millions of U.S. jobs, there are still too many American workers who are left behind by a modern, more productive global economy that requires increasingly higher skills. There's broad and growing agreement across the political spectrum that we must do more to help these Americans succeed.<sup>40</sup>

But, how do we help?

As we've detailed, protectionist solutions are hardly the answer. Protectionist policies offer the cruel illusion of help to the vast majority of workers who have been *not* been displaced by trade but, rather, by a complex combination of lower skills, increased productivity, and technological change. And, while high duties and other import barriers might cause the return of relatively limited numbers of lower-skilled jobs, they'd destroy millions of well-paying jobs for American middle class workers in the process.

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Policymakers must recognize that job impacts caused primarily by factors other than trade must be addressed by solutions that go far beyond trade.

### *Solutions Beyond Trade*

The first order of business for American policymakers must be to recognize that job impacts caused primarily by factors other than trade must be addressed by solutions that go far beyond trade as well. Continuing to make trade take much of the rap for broader job disruptions is both lazy and factually wrong. Equally important, it's a faulty policy diagnosis that will only lead to counterproductive and incomplete solutions.

Helping more American workers benefit from an open, global, and innovative economy will, instead, require a comprehensive program of inclusive, pro-innovation, pro-growth—and largely domestic—policies, the details of which are beyond the scope of this report.

In PPI's 2016 report, *Unleashing Innovation and Growth: A Progressive Alternative to Populism*, we detailed an array of growth- and innovation-related policy reforms—including many that could help American workers better adapt to the global, high-skill economy. These include, for example, promoting modern additive manufacturing in hard-hit regions; supporting high-quality, responsive, work-based career and technical education; ensuring greater worker mobility; and streamlining the approval and boosting the funding of vital public works projects.<sup>41</sup>

These and other broader-based, positive solutions would help more workers—including those impacted by trade—find and keep good jobs in an ever-changing global economy.

## HOW SMART TRADE POLICIES CAN HELP

At the same time, smart trade and investment initiatives can play an important, supportive role as part of a comprehensive strategy to help more American workers succeed and prosper. We outline a number of these policies below.

### *Opening Markets and Boosting Pay*

Making it easier for American companies to trade globally would support more well-paying, trade-related jobs for more Americans.

Countries around the world are busy negotiating scores of market-opening agreements that would lower barriers to their trade, including a 16-country mega trade deal spearheaded by China and its East Asian neighbors.<sup>42</sup> Meanwhile, U.S. exports face average foreign tariffs that are among the highest in the world.<sup>43</sup> New trade agreements like TPP would address this significant impediment to U.S. trade and economic growth. TPP, for example, would provide U.S. exporters with much improved access to key East Asian markets—and to an East Asian middle class that will grow to ten times the size of America's middle class in 2030. This, in turn, would drive expanding opportunities for America's middle class workers to make and sell what Asia's consumers increasingly want to buy.<sup>44</sup>

A recent U.S. International Trade Commission (USITC) report details how increased market access under TPP would boost the benefits of good, trade-related jobs for American workers. The USITC's conservative analysis estimates that two-thirds of the net growth generated by TPP would flow to workers—both skilled and unskilled—in the form of higher wages. In the first five years of the agreement alone, estimated TPP-driven wage growth would translate to a net increase in U.S. wages of about \$77 billion.<sup>45</sup> Notably, that's almost the same boost in overall U.S. wages as some estimates (\$80 billion) of the impact of increasing the minimum wage to \$12 over five years.<sup>46</sup>

### *"Democratizing" Trade for Small Businesses and Their Workers*

Global e-commerce is enabling growing numbers of U.S. small businesses to reap the significant benefits of international trade.<sup>47</sup>

Increasingly, a small business with an innovative product and an Internet connection can sell globally as easily as large, established competitors.<sup>48</sup> As one recent study notes, because of disruptive digital tools, "cross-border trade is no longer an activity exclusive to global corporate elites."<sup>49</sup> And, as we've previously detailed, digitally enabled trade has vast potential to support more inclusive growth by empowering nontraditional traders—including women, minorities, and younger Americans—to start and build thriving businesses that tap into global trade.<sup>50</sup>

New agreements like TPP would further “democratize” trade by making exporting faster, easier, cheaper, and more certain for American small businesses. TPP, for example, would keep digital channels open and establish new rules to assure cross border e-commerce and electronic payments. And it would eliminate high duties, customs red tape, and other foreign barriers that can pose particular problems for small exporters.<sup>51</sup> These reforms would further disrupt long-established big business models for global commerce and create new opportunities for America’s small and nontraditional traders to prosper from trade.

### *Leveling the Playing Field on Standards*

A significant proportion of America’s trade-related job losses in recent years has been the result of trade with China—a country that does *not* have a free trade agreement with the United States and that does *not* share America’s commitment to strong regulations and high labor and environmental standards.<sup>52</sup>

TPP would continue ongoing U.S. efforts to level the global playing field for American workers on regulations and standards. The agreement would require, for example, that trading partners that want preferred access to the U.S. market agree to follow enforceable, internationally recognized labor and environmental rules. TPP would mandate, for instance, that Vietnam permit the establishment of independent unions and guarantee other key worker protections, like the ability to bargain collectively.<sup>53</sup>

It’s noteworthy that the authors of the China “import shock” study described above support TPP because, among other things, it would raise standards in the region and pressure China to follow suit.<sup>54</sup>

### *“Insourcing” Foreign Investment to Support Good U.S. Jobs*

Lost in misguided campaign rhetoric about punishing American companies for investing abroad is the vital role that foreign investment in America plays in supporting good jobs for U.S. workers.<sup>55</sup>

Some 6.1 million Americans (including 2.3 million manufacturing workers) are directly employed in the U.S. operations of foreign companies that “insource” jobs into the United States. These workers are well paid, earning 33 percent more than the U.S. average.<sup>56</sup> Through its SelectUSA initiative, the Obama Administration has been aggressively courting additional foreign insourcing—emphasizing significant U.S. advantages for global businesses that locate here, including a skilled and globally competitive workforce, low energy costs, and a large and open domestic market.<sup>57</sup>

Notably, many global companies produce in the United States for export to the world; the U.S. operations of foreign firms already account for an astounding 23 percent of all U.S. goods exports.<sup>58</sup> TPP and the Transatlantic Trade and Investment Partnership (TTIP) would give these companies—and, indeed, all U.S. exporters—preferred access to some two-thirds of the global economy.<sup>59</sup> This, in turn, would make America an even

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more competitive global production platform, attract greater investment in the United States (including “reshoring” by U.S. firms), and support more good jobs for America’s middle class.<sup>60</sup>

### SEPERATING RHETORIC FROM REALITY

Americans are conflicted about trade. Strong majorities of voters—including Democrats, swing voters, Clinton and Sanders voters, and Millennials, as well as many Republicans—believe that trade and trade agreements are vital and valuable for the U.S. economy.<sup>61</sup> At the same time, large numbers of voters admit that they still don’t know enough about trade and trade proposals like TPP and, especially, their effects of U.S. jobs.<sup>62</sup>

Populist politicians and trade skeptics are only too happy to fill this void, blaming trade for all manner of broader ills—especially lost jobs and economic insecurity—and casting the pursuit of open, rules-based trade as an elitist plot serving moneyed interests. As we’ve detailed above, however, the reality is quite different.

Millions of middle class American workers benefit from trade. And new trade initiatives can support broader, comprehensive, pro-growth reforms in helping many more. But to reach this potential, supporters of open trade must push back against rhetoric about “the elites” and redouble their efforts to tell positive, inclusive stories about trade’s many benefits, especially its significant role in supporting good jobs for American workers.

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## About the Author

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## About PPI

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