



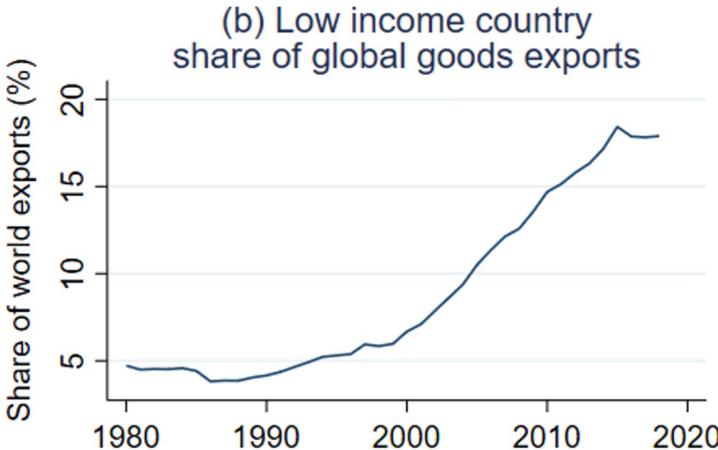
# Trade and Inequality in Europe and the United States

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# Rapid Globalization in the 90s & 00s

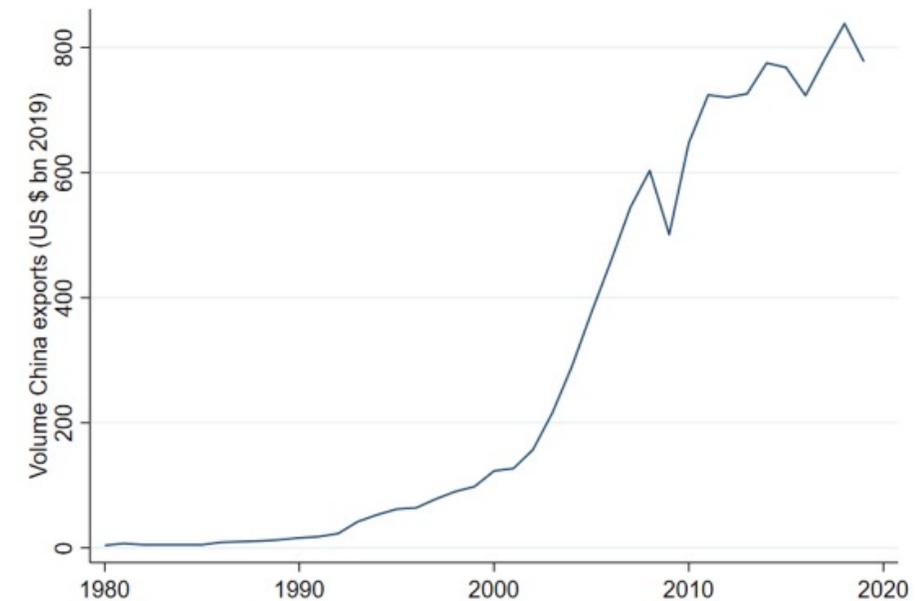


Source: Dorn and Levell (2021)

# What Triggered the Globalization Wave of the 90s & 00s?

- Communist countries implement market-oriented reforms, integrate into system of world trade
  - **China stands out** due to the sheer size of the country and the tremendous speed of its economic growth
  - After 2010, the Chinese government slows or reverses reforms
- Trade expansion further facilitated by
  - New communication technologies
  - Falling tariff rates

Volume of Chinese merchandise exports to the US and EU-15, 1980-2019

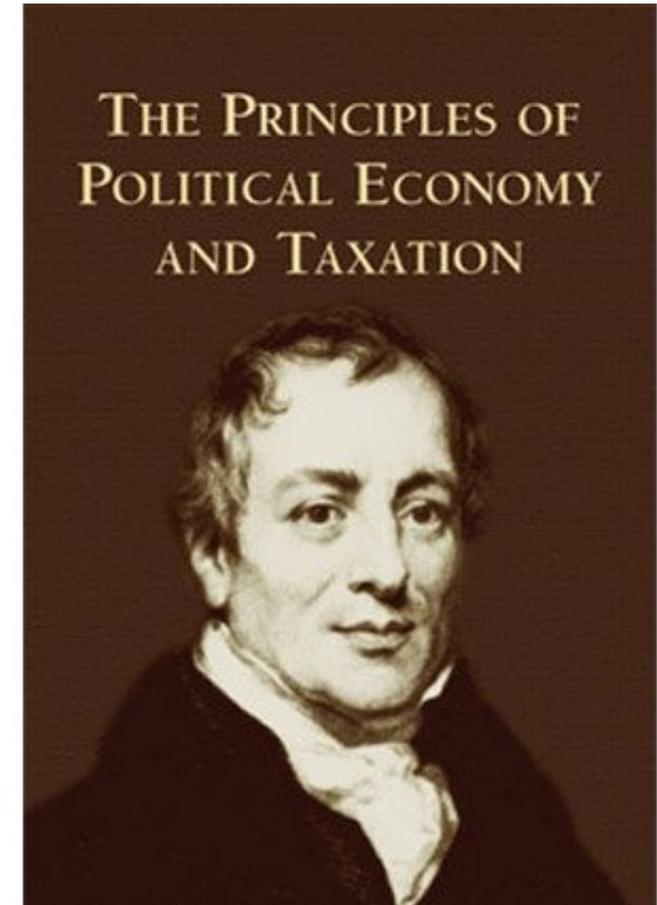


Source: Dorn and Levell (2021)

# The Case for Free Trade

## Ricardo's Big Idea

- Trade allows countries to specialize in the goods in which they are most productive – comparative advantage
- Free trade among consenting nations raises GDP in all of them



*David Ricardo, 1772 – 1823*

# Why Is Free Trade Not a Free Lunch?

## 1. Trade permanently alters skills demands

- Typically raises demand for high-skill workers in industrialized countries, but reduces demand for low-skill workers

## 2. Trade mandates reallocation of workers/jobs

- Workers displaced from career jobs, may require new location, industry, or occupation
- Much of the impact of trade on the labor market depends on whether trade-displaced workers quickly find other good jobs!

# What Did Economists Say in the 90s & 00s?

## Trade doesn't disrupt the labor market

*'A preponderance of research to date suggests that the impact of third world exports on first world labor markets has been small, or at least elusive'*

Paul Krugman, J. of Ec. Perspectives, 1995



# What Do Economists Say Now?

## Trade does disrupt the labor market

*'Economists, myself included, have tended to underplay the disruptive effects of rapid change. (...) Many of us feel that we missed something important about the downsides of rapid globalization'*

Paul Krugman, New York Times, 2021



# Firms Struggle to Keep up with Import Competition

## Rising imports of low-priced Chinese goods create competition for firms in Europe, US

- *firms experience declines in sales, profits, and employment*
- *factories shut down*



# Workers Don't Easily Move to Other Jobs

## Employees of import-competing firms

- *struggle to find other good jobs*
- *accumulate lower earnings over their careers*
- *rarely move to other geographic locations*



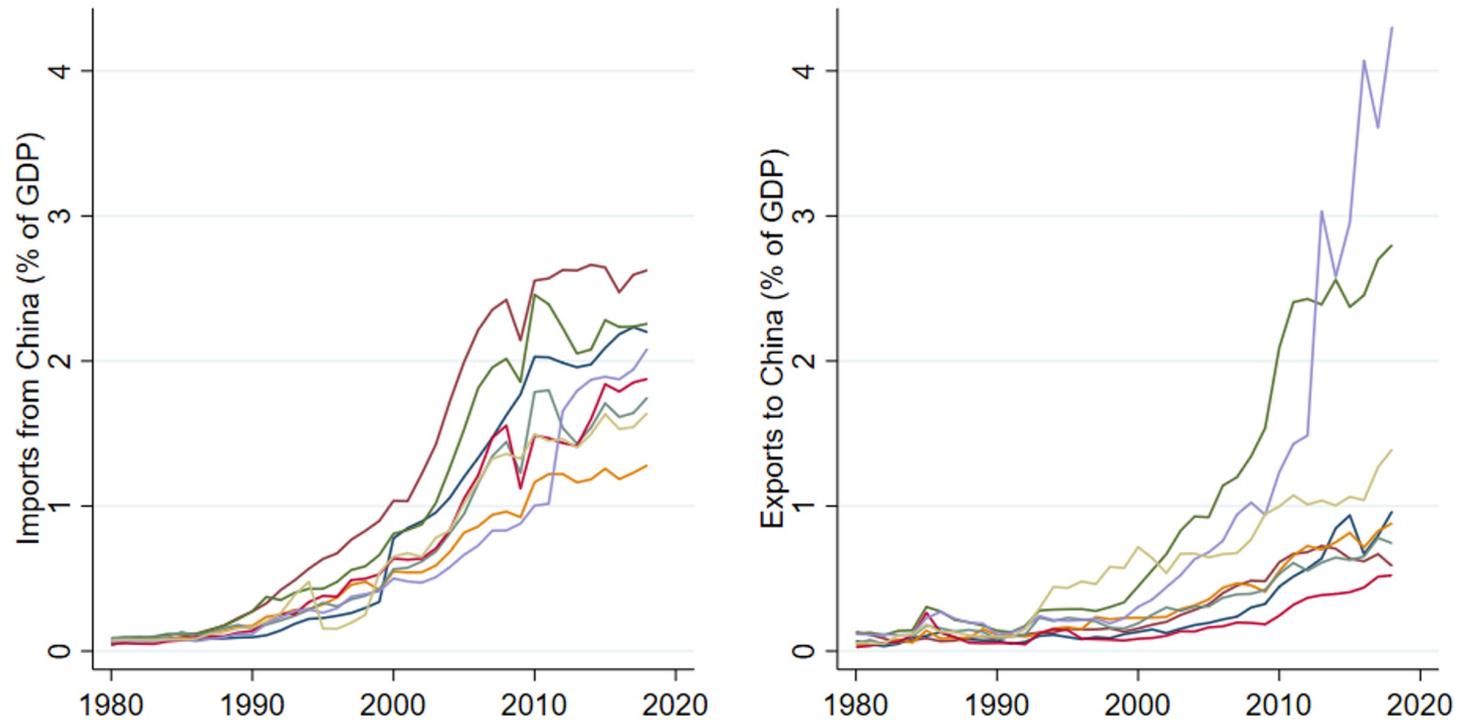
# Factory Towns Experience Lasting Depression

## Regions whose industries faced greater import competition have

- *lower employment rates*
- *lower income levels*
- *higher mortality*
- *higher crime rates*
- *greater support for right-wing parties*

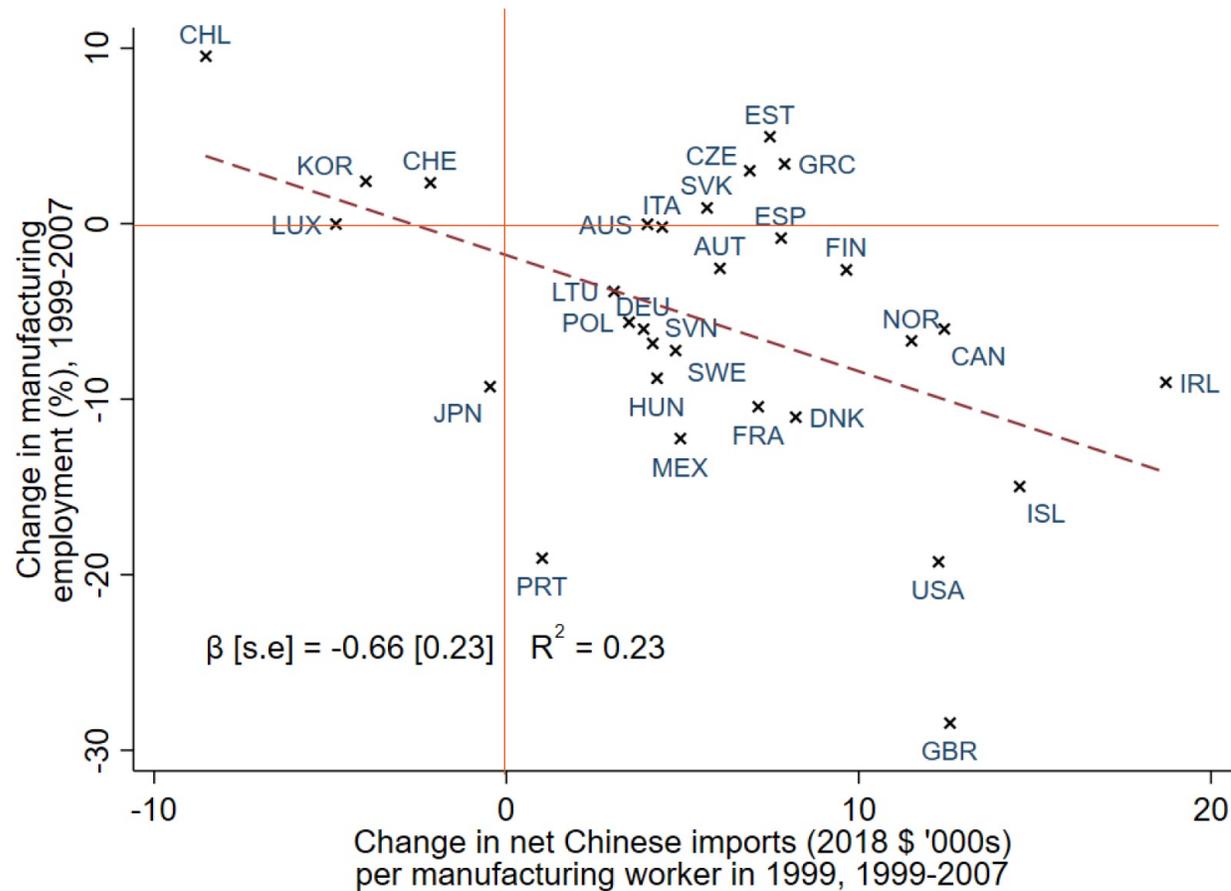


# Import Growth from China Was Pervasive... But Not Export Growth to China



Source: Dorn and Levell (2021)

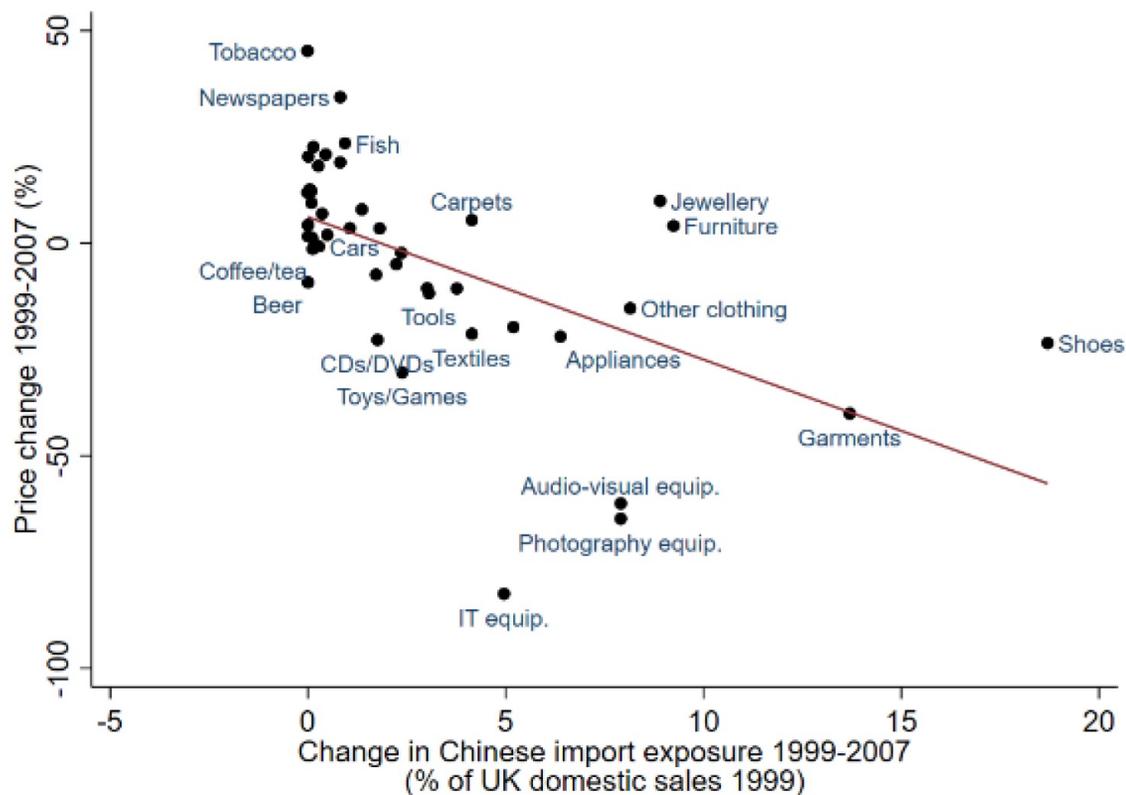
# Countries with Greater Net Import Growth from China Experienced Greater Job Loss in Manufacturing



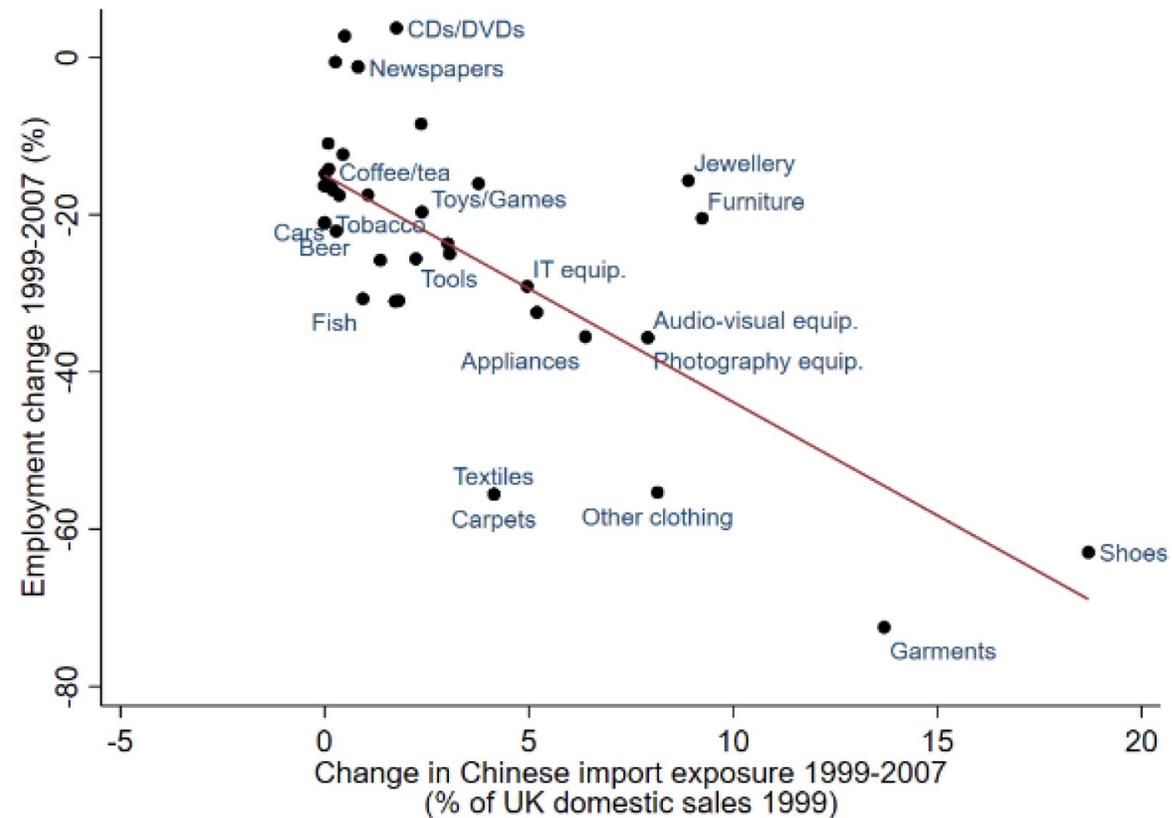
Source: Dorn and Levell (2021)

# Imports from China Reduced Employment, but also Consumer Prices in UK

(a) Price change



(b) Employment change



Source: Dorn and Levell (2021)

# Concentrated Losses, Dispersed Gains

**According to most calculations, consumer gains from lower prices outweigh labor income losses**

**BUT: Income losses heavily concentrate on**

- *workers in import-exposed industries*
- *regions where such industries cluster*

**while consumer gains from lower goods prices**

- *are geographically uniform*
- *are comparable for low-skill and high-skill workers*



# What Policies Can Support Globalization's Losers?

## 1. Protection from Trade Competition

- WTO rules allow temporary safeguard tariffs or quotas that provide emergency protection from import competition
  - Rarely used by US and EU
  - Lower job losses trade off against lower consumer benefits
- Large-scale US tariffs on Chinese imports imposed in 2018/19
  - did not fulfill WTO criteria
  - failed to bring back jobs

# What Policies Can Support Globalization's Losers?

## 2. Compensating / Supporting the Losers

- Government transfers
  - offset only about 15% of trade-related income losses in US
- Active labor market policies
  - job counseling, worker re-training, salary and moving subsidies
  - sometimes effective, but expensive
- Place-based policies
  - investment subsidies or tax breaks for firms, construction of infrastructure
  - sometimes effective, but expensive

# Conclusion

- 1. China's rise has increased aggregate welfare in many countries**
- 2. But: Concentrated losses vs. dispersed gains**
  - Workers do not rapidly reallocate across industries, regions
  - Declining labor force participation of young, non-college adults
  - Persistent depression in the most affected regions
- 3. Economists and politicians were too sanguine about 'free trade = free lunch' story**
  - And woefully unprepared accordingly
  - The globalization wave of the 1990s/2000s created substantial inequality among workers and regions, and its economic, social and political fallout persists today