

Will TPP Be Good for the American Worker?*

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I received the question below on Twitter on October 9:



My answer to Nancy is below.

Your question is very important, but we cannot think about the effect of trade on the “American worker” as if all workers were homogeneous and employed by identical producers in symmetric sectors. And it is also incorrect to separate the “worker” from the “consumer” when assessing the effects of trade.

Trade results in reallocation, as foreign competition causes firms or entire sectors to shrink, and access to foreign markets will cause other firms and sectors to expand. There are winners and losers. But the key problem is the speed of the labor market adjustment process rather than trade itself. This is emphasized also by Autor, Dorn, and Hanson—the authors of the famous “China shock” paper, who are all supporters of (freer) trade.

Moreover, contraction of U.S. manufacturing employment is due to technology more than trade and began well before NAFTA. Even if the U.S. did not pass TPP and turned toward protectionism, we would not see a resurgence of manufacturing employment. Manufacturing

* The views I express in this document are personal and do not reflect the views or policies of the CEPR, NBER, and the Central Bank Research Association.

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output has been rising—and is now above pre-crisis levels—, even if employment in manufacturing has been declining. This is the result of technology (automation) changes that are not going to be reversed. Those jobs are not coming back, trade or no trade.

There is ample evidence of the productivity-enhancing effects of trade, something the U.S. and the world economy badly need in the environment of low productivity growth we have been facing. And while trade has been costly for some workers (and TPP may be costly for some others), it is hard to argue that trade has not been beneficial for consumers, who have been benefiting from lower prices and access to a wider range of products. As a worker, I may not like trade if competition causes the firm I work for to shut down or switch to a less labor-intensive technology, but, as a consumer, I sure love trade. If policy acts to help me go through difficult times when I am one of those workers who need to upgrade skills and/or relocate, trade is eventually beneficial even for me.

A key problem in the U.S. has been the failure of policy (or politics) to act. This post by Hufbauer is worth reading: <https://piie.com/blogs/trade-investment-policy-watch/ivory-tower-economists-free-trade-and-workplace-woes>

In the aggregate, the economic benefits of TPP will include facilitating market access for U.S. firms, increasing integration of trade in services (a sector in which the U.S. has a comparative advantage), enhancing productivity, and expanding access by U.S. consumers to product variety at competitive prices. There will be some losers. That's why the role of policy in facilitating adjustment is key, and action must be stepped up.

If you are curious to read more on my thoughts about how to evaluate the economic benefits of TPP, here is a column I wrote: <http://voxeu.org/article/tpp-structural-reform-let-s-evaluate-it-structural-models>

Finally, we should keep in mind that the benefits of TPP to the U.S. should be looked at in the context of the U.S. global economic strategy and security interests.

Not passing TPP will de facto imply that the U.S. abdicates a leadership role in the Asia-Pacific, leaving that role to China. TPP includes provisions on intellectual property rights, market regulation, labor and environmental standards, and even macroeconomic policy that are not part of China's priorities. If TPP is derailed, China will become the key rule-setter for Asia-Pacific economic interactions, as the would-be U.S. TPP partners (and the U.S. itself) will have to negotiate their arrangements with China from a weaker position. Given the speed of growth of the Asia-Pacific market, abdicating leadership in that market will weaken the U.S. standing not only there but globally. Conversely, signing TPP will make it easier to bargain with China from a position of strength and, if cooperation prevails on antagonism, to accomplish mutually beneficial outcomes.

Moreover, economic leadership in the Asia-Pacific has clear implications for U.S. security interests and those of U.S. important, traditional allies.

For all these reasons, I think it would be a massive mistake not to pass TPP. It is not a perfect deal, but it is much better than the alternative.