

NATIONAL REVIEW

Don't Blame Free Trade for the Collapse of U.S. Labor Dynamism

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Over on the home page, and in the latest dead-tree edition of the magazine, you'll find my [lengthy review](#) of international trade policy and its actual effects on the U.S. economy and labor market. The tl;dr version of my piece (though you certainly should read the whole thing!), is that, while free trade has provided overwhelming benefits for the vast majority of American families, workers and businesses, its inevitable displacement of some workers has revealed serious problems in the U.S. labor market's ability to reallocate people from older, less productive sectors to new and innovative ones. This collapse in "labor dynamism" is a relatively new phenomenon and is hurting not only the U.S. economy, but also American voters' confidence in it – effects that boost, ironically, protectionist candidates like Donald Trump, even though other government policies, and certainly not trade, are likely to blame for the problem.

Over the last few days, my article has found additional support:

First, there have been several new economic reports supporting the benefits of free trade for the U.S. economy. Two highly respected economic forecasts – from Brandeis' [Peter Petri](#) and [Moody's Analytics](#) — have bolstered my view that Trump's protectionism would not only fail to solve the current problems in the U.S. labor market, but actually make things much worse. In particular, these studies each found that withdrawing the United States from the global economy would result in millions of American jobs lost, a full-bore recession (in the United States and in China and Mexico), and an actual *increase* in the U.S. trade deficit. I'd also recommend this [Eduardo Porter look](#) at NAFTA and the U.S. auto industry, in which he finds that the agreement's creation of a globally-competitive North American automotive supply chain probably saved U.S. autoworkers' jobs – jobs that without NAFTA would have disappeared in the face of intense Asian competition. Finally, for those who, like Trump, erroneously think that the U.S. manufacturing sector has been destroyed by trade, I invited you to check out the latest [Global Manufacturing Competitiveness Index](#), which finds that the second-ranked United States will likely overtake China for the top spot by 2020.

Second, my Cato Institute colleagues have gotten in on the fun: [Alan Reynolds](#) joins GMU's Scott Sumner as expressing serious doubts about the new study on China trade and U.S. jobs that's driving the American punditocracy's latest bout of protectionist pearl-clutching, while Dan Ikenson [warns](#) about blaming trade for all of the real failures of U.S. domestic policy. Both are worth a look.

Finally, commentary from across the pond mirrors my thesis that the real problem in the U.S. labor market isn't trade but the multiple policy failures that have led to our distressing lack of labor dynamism. *The Economist* reiterates the "overwhelming benefits" of trade, while lamenting the U.S. economy's sorry ability to help American workers cope with the ultimately-beneficial competitive forces unleashed by trade, automation or any other form of "creative destruction." Charles Kenny, author of *The Upside of Down: Why the Rise of the Rest is Good for the West*, says much the same thing in a lengthy interview to the Financial Times. Kenny's whole interview is worth reading, but this part really stuck out (emphasis mine):

I think there's evidence from elsewhere that Chinese imports helped create jobs outside the manufacturing sector, not least by reducing prices and, in particular, reducing prices on goods purchased more by poor people.

So I think there has been an effect on both consumption but also job creation outside of manufacturing, but not in the manufacturing sector. And lots of people in concentrated parts of the country lost their jobs as a response to growing Chinese imports.

The really sad part of the story is what happened next. What happened next was the Federal Government started spending some more money in those parts of the country. On what? On disability payments, on taking people out of the labour force.

This was where most of US Federal money went in response to this challenge. Not on retraining, not on helping people move to where the jobs were, not on creating new innovation, not on any of that, not on building the pie again, but on taking them out of the labour force through disability payments. That's just chronic. I think it shows a real lack of political leadership.

Data in Kenny's book, also excerpted in the FT, underscore these problems, and it ends with this mind-blowing statistic: "evidence suggests that about one in four hundred federal dollars helped workers retrain out of [trade-]exposed industries and the other \$399 helped them retire or invalid out of those industries and the workforce completely."

I highlight many of these misguided policies in my article, tracing how each can discourage American workers from saving enough money to weather financial storms or take professional risks; from voluntarily moving from one sector to another; and from getting a new and different job after losing an old one. As I note therein, a lot more research is needed on this issue, so it's good to see more attention being drawn to it. The sooner we abandon Trump's fake solutions and get to working on the real ones, the better.

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