

“Trade and Jobs”

Economic Analysis of Key Presidential Election Issues

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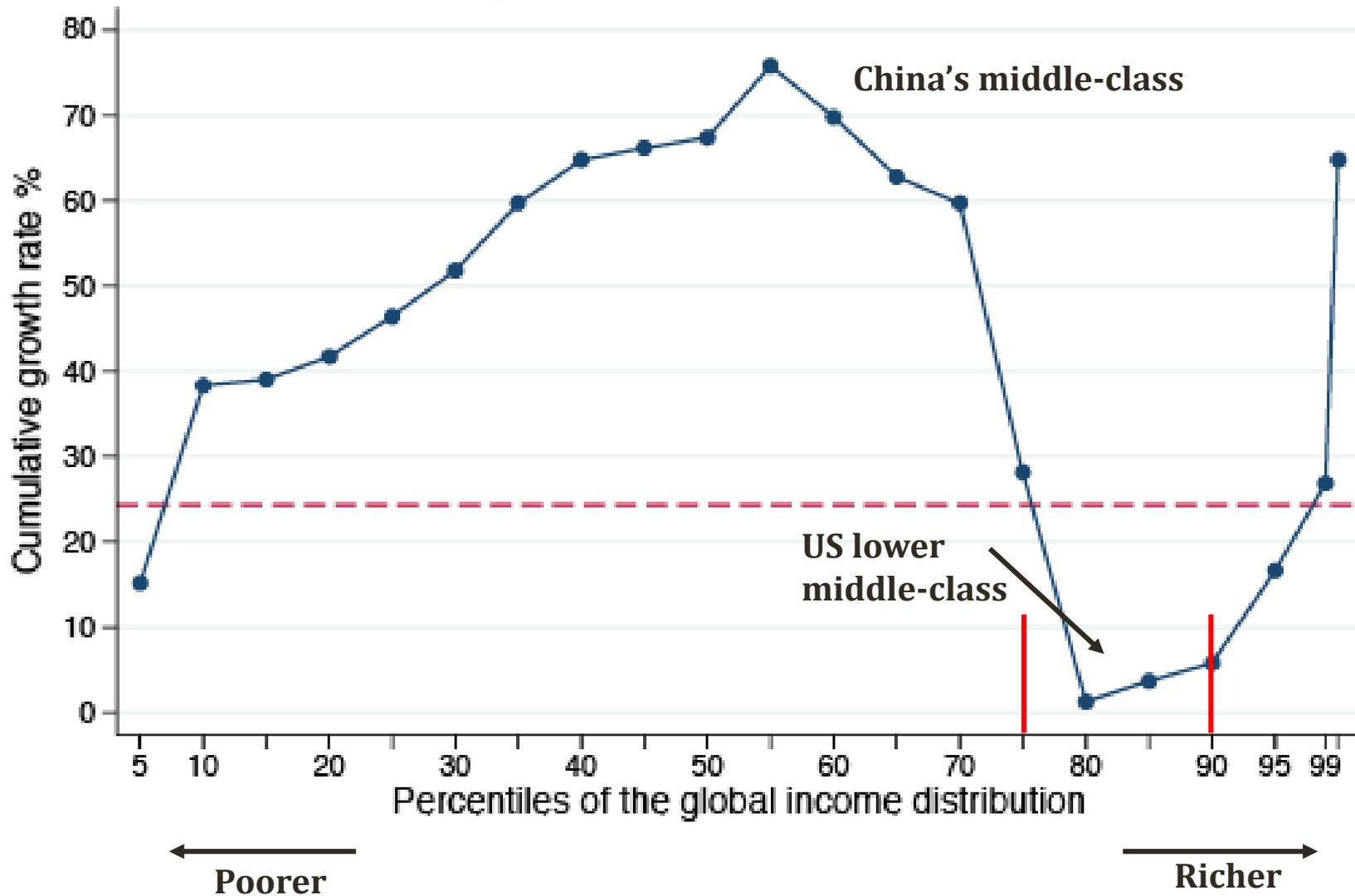
Columbus, OH



Why is Trade an Election Issue?

- **Post-1930s: rules-based international trade regime considered in national interest**
- **Trade targeted in current political discourse:**
 - **With globalization, share of trade in US GDP has tripled over past 50 years**
 - **Congress unwilling/unable to expand safety net for those losing jobs to trade or seeing wages decline**
 - **30% of electorate oppose trade - typically lower-income, blue-collar workers (Irwin, 2016)**

Global growth incidence curve, 1988–2008



Source: Lakner and Milanovic (2014)

Candidates' Positions on Trade

- **Clinton skeptical about trade, but effectively seeks *status quo*, while Trump offers clear departure**
 - Both against Trans-Pacific Partnership (TPP) – forgoing expected \$130 billion increase in US GDP by 2030 (Petri and Plummer, 2016)
 - Trump goes considerably farther:
 - ➔ 35% tariff on Mexican imports
 - ➔ 45% tariff on Chinese imports
 - ➔ renegotiate free trade agreements (FTAs)
 - ➔ withdraw from WTO

Does Trade Affect Jobs?

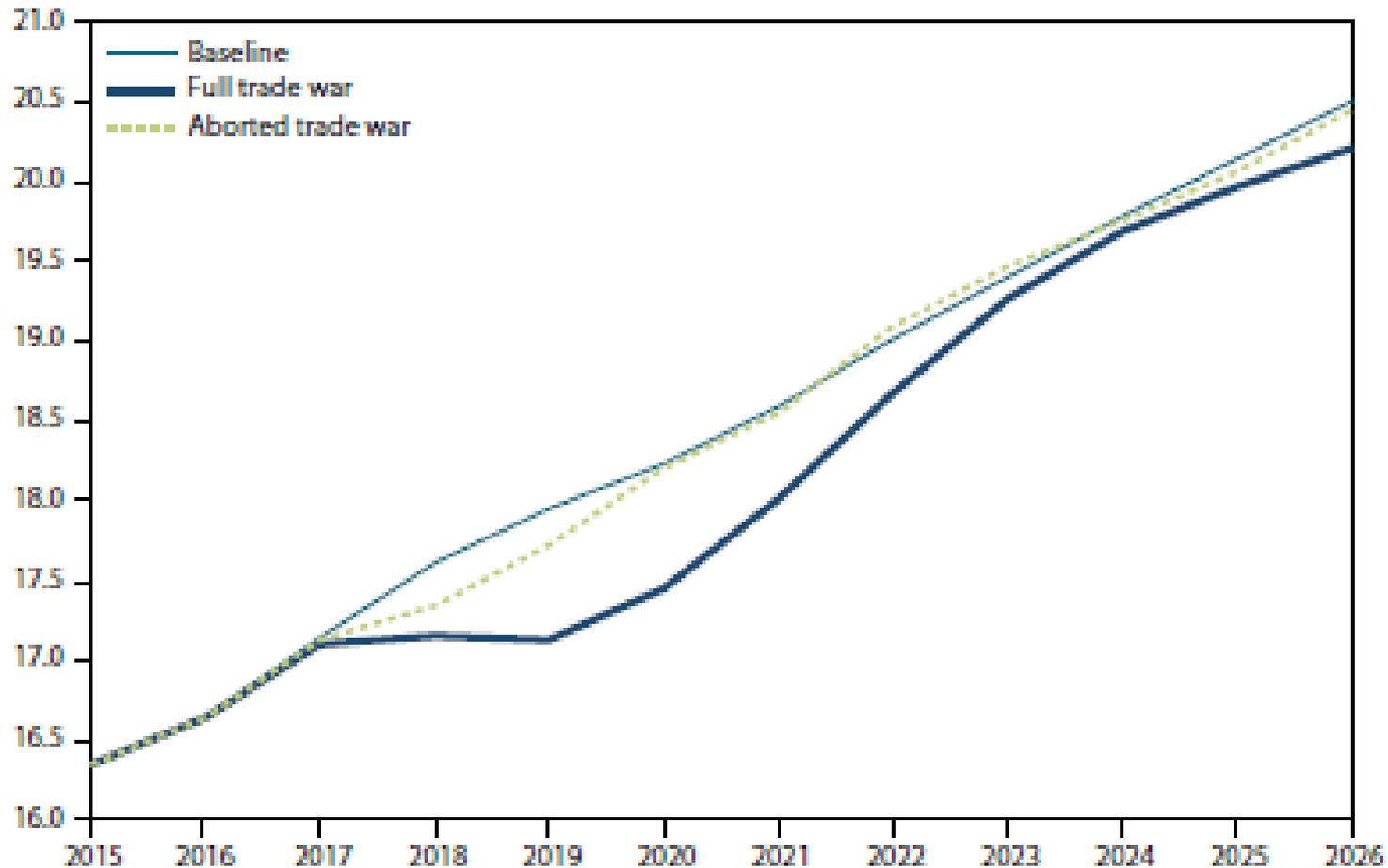
- ***Number of jobs a macroeconomic phenomenon, dependent on actions of Federal Reserve, i.e., trade affects composition of jobs not overall number***
- **Consensus that technological change *not* trade primary driver of recent US labor market changes**
- **However, China's accession to WTO contributed to surge in US imports, negatively affecting US manufacturing employment and wages**
- **1999-2011: US manufacturing employment declined by 5.8 million, 10% due to Chinese import penetration (Acemoglu *et al.*, 2016)**

Potential Effects of Trump's Trade Policies

- **Noland *et al.* (2016) simulate two scenarios using adapted version of Moody's model:**
 - **“full trade war” – US employment falls by 4.8 million by 2019 due to recession, many states incurring reduced employment, e.g., Ohio 4%**
 - **“aborted trade war” – employment falls by 1.3 million, tariffs being removed after a year**
- **Estimates ignore: (i) role of global supply chains, (ii) renegotiation of FTAs/withdrawal from WTO, and (iii) impact of uncertainty on investment**

Figure 2.2 Projected US GDP under baseline, full trade war, and aborted trade war scenarios, 2015–26

trillions of 2009 US dollars



Source: Authors' calculations.