THE LABOR MARKET IMPACTS OF NAFTA

By Greg C. Wright

Abstract: *International trade has led to overall gains for the U.S., while simultaneously causing a reshuffling of the type of work being done. Although the net benefits from trade agreements such as NAFTA may be positive, the hollowing out of vulnerable communities has understandably led to the deterioration of the NAFTA brand in the eyes of many Americans. While nearly all the jobs that were lost are gone for good, an important strength of recent empirical work has been to clearly identify the regions, industries, and workers that were most exposed to the downsides of specific trade policies. The renegotiation of NAFTA could be accompanied by targeted efforts to help these communities become more engaged with the modern economy.*

Economic research on the impact of international trade on labor markets has made important progress in recent years. Some of the news has been sobering—for instance, hundreds of thousands of manufacturing workers likely lost their jobs due to China's entry into the World Trade Organization (Autor, Dorn and Hanson, 2013). Similarly, NAFTA has had a lesser, but still negative, employment impact in specific industries and geographies (McLaren and Hakobyan, 2012).

But there is good news as well: Despite the job losses, both China's WTO entry and NAFTA led to net gains for the U.S. overall (Caliendo, Dvorkin and Parro, 2015; Caliendo and Parro, 2015). This is a common story when it comes to international trade, namely that job losses tend to be concentrated in specific regions and industries but are typically offset by more widespread gains for everyone. Specifically, the gains come in part from cheaper and more varied products for consumers and in part from an increase in production efficiency for firms, who get access to new inputs and a larger market for their products.

In general, international trade drives economic growth and lifts all boats, as evidenced by the strong correlation between trade, economic growth, and incomes across nearly all countries and over long periods of time (Donaldson, 2015). Moreover, trade—even trade with low-income countries—has little or no impact on the total number of jobs in the economy, a statement that may seem counterintuitive but can be seen given the lack of historical correlation between changes in the U.S. unemployment rate and changes in the volume of U.S. trade.

On the other hand, trade leads to a continuous reshuffling of the type of work being done, as new jobs are created and old jobs die. Within the U.S. this happens as the global demand for different U.S. products rises and falls, and as U.S. firms restructure their supply chains in search of greater efficiency and profits. For instance, it's no secret that over the past two decades U.S. manufacturers have found it profitable to offshore some parts of their production processes to countries with lower-wage workers. But in normal years these labor market disruptions are indistinguishable from the job-market churning that naturally occurs in a large, healthy economy.

However, in the face of an unusually large trade shock the disruption can be more substantial and, critically, can lead to negative spillovers for local communities that are most exposed to trade. Workers affected by free trade agreements like NAFTA are not only likely to end up in lower-paying jobs (Ebenstein, Harrison and McMillan, 2014), but may rely more on public benefits over their lifetimes (Autor, Dorn, Hanson and Song, 2014) or become less valuable marriage partners (Autor, Dorn and Hanson, 2017). These shocks can be harmful to the affected workers and the communities in which they live, often for decades into the future (Dix-Carneiro and Kovak, 2015).

So while the overall benefits from trade agreements such as NAFTA may be positive, the hollowing out of vulnerable communities has understandably led to the deterioration of the NAFTA brand in the eyes of many Americans. Some of these Americans now see a possible renegotiation of the agreement as a chance to claw back some gains.

But the truth of the matter is this: While NAFTA should be modernized in a variety of dimensions, nearly all the jobs that were lost are gone for good. In fact, the vast majority of these jobs would have disappeared even in the absence of NAFTA, taken over by one variety of robot or another (Acemoglu and Restrepo, 2016). A steady decline in the manufacturing share of the workforce long preceded NAFTA.

This is because the manufacturing sector has been producing ever-more output with ever-fewer workers for decades, reflecting a rise in productivity that looks much like the rise in agricultural productivity that occurred a century ago. That period also saw a gradual shift of U.S. workers out of agriculture, as well as an angry backlash by agricultural workers whose livelihoods were being threatened. However, the stark parallels between these periods ultimately suggest that the current shift away from manufacturing work is both inevitable and, in the long run, good for U.S. workers.

Nevertheless, a modern, wealthy country should manage structural changes in its economy in a humane way. In the case of NAFTA, much more could have been done. And many of the communities still suffer, with the opioid crisis the latest example of a struggle that is probably not unrelated to the trade shocks of the past three decades.

One way of making partial amends would be to include U.S. government support for affected communities as part of the renegotiation of NAFTA. In fact, one of the strengths of recent empirical work in international trade has been to clearly identify the regions, industries, and workers that were most exposed to the downsides of specific trade policies. This work could guide targeted efforts to help these communities become more engaged with the modern economy.

Greg C. Wright is an Assistant Professor of Economics at UC Merced.