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Imports, Exports, and Jobs: What Does Trade Mean for Employment and Job Loss?

Lori G. Kletzer

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ries, and those applying to become beneficiaries, forgo benefits or the possibility of receiving them by participating in the labor market, an SSDI program expansion (an increase in benefits or a reduction in screening stringency) will typically raise self-reported disability and reduce disabled employment.

Goodman and Waidmann argue forcefully that exactly such a profound, and largely unintended, SSDI expansion was under way during the 1990s: the value of SSDI cash and Medicare benefits rose relative to potential labor market earnings of SSDI recipients; SSDI award rates (that is, the share of applicants awarded benefits) failed to decline even as application rates increased alarmingly; and a growing fraction of SSDI awards went to claimants with hard-to-screen ailments, such as back pain and mental disorders. This constellation of facts suggests that the SSDI program accommodated—and most likely encouraged—a large-scale withdrawal of the working-age disabled from the labor market. As DeLeire and others note, however, a rise in SSDI rolls is not incompatible with a role for the ADA. If the ADA reduced opportunities for disabled job applicants, this would certainly encourage disabled Americans to seek benefits in lieu of jobs.

Policy-makers and researchers may draw their own conclusions about the relative importance of the ADA and SSDI, but there are few readers of this volume who will not come away edified. Because the major viewpoints in the disability debate are living under one book jacket—and under the editorial gaze of Stapleton and Burkhauser—no author in this volume is allowed to “talk past” the others. In fact, each appears to be writing with all other chapters in hand, which leads to a highly focused discussion of the “policy puzzle” named by the book’s title. And as Stapleton and Burkhauser’s valuable final chapter underscores, the phrase “policy puzzle” is apt. The plummeting employment of the working-age disabled during the 1990s was not an inevitable consequence of a changing labor market. Rather, it appears to have been a direct result of public policy—well-intended policy to be sure, but also surely unsuccessful policy. Understanding what policies generated this outcome, and amending them accordingly, is a high priority for research.

David Autor

Pentti J.K. Kouri Associate Professor,
Department of Economics, M.I.T.
Faculty Research Fellow,
National Bureau of Economic Research

Imports, Exports, and Jobs: What Does Trade Mean for Employment and Job Loss? By Lori G. Kletzer. Kalamazoo, Mich.: W.E. Upjohn Institute for Employment Research, 2002. 221 pp. ISBN 0-88099-248-4, \$36.00 (cloth); 0-88099-247-6, \$16.00 (paper).

This book joins the ongoing debate concerning the link between trade and the labor market in the United States. In methodology, econometric techniques, and reasoning, Lori Kletzer’s study is similar to the work of labor economists during the 1980s and 1990s. Using inter-industry data for the years 1979–94, the author tests a simple theory based on decomposition of demand in a partial equilibrium framework. The book offers, in effect, an excellent summary of almost all that was said or done on this subject by labor economists over a two-decade period. The parallelism extends beyond methodology and data, too: like most prior researchers, Kletzer finds that international trade had only a weak impact on net employment.

To set the scene, Kletzer starts out by briefly explicating the main theoretical arguments underlying the debate and surveying the empirical literature. Then, to better prepare readers for her own econometric study, which uses a variety of explanatory variables and different estimation methods, she provides a simple but detailed descriptive overview.

Although most of Kletzer’s study, consistent with its close adherence to previous research, concerns net flows of trade and employment, perhaps its most interesting part is the author’s analysis of gross flows. In particular, her close examination of the gross job loss due to imports exposes how cold and misleading is the usual conclusion that because trade creates as many jobs as it destroys, it does not induce job losses. As she states on page 101, “The addition of job displacement to the literature’s traditional focus on net employment changes allows a focus on ‘real’ job loss, the type of event that happens to ‘real’ workers.” The rather low overall impact of imports on employment, Kletzer argues—lower than the employment gains from exports—must be weighed against the substantial job losses imports have apparently occasioned in certain specific sectors, such as textiles and apparel.

From the beginning, Kletzer registers full awareness of the limitations of her analysis, and she advises caution in interpreting the results: “The empirical analysis should not be taken as causal” (p. 104). The reason the theoretical

framework adopted does not allow causal inference is that Kletzer is studying a general equilibrium question with a partial equilibrium approach (see p. 85). Furthermore, the fit of her model is rather poor: "about one-third of the variation in industry employment growth is explained by the included explanatory variables" (p. 117).

Whether or not one agrees with Kletzer's chosen approach, there is no doubt that she has undertaken a meticulous, thorough, and coherent study. The econometric analysis using a variety of estimation techniques and different groups of explanatory variables is laudable. The author compares the results when she uses data on trade flows and on import prices, and finds no important differences; in one regression, she distinguishes imports coming from low-wage countries from those coming from the industrialized countries, and finds that the latter have a larger negative effect on employment; she divides the data into several time periods, in order to separate the role of the cycle from the appreciation and depreciation of the dollar; she works on cross-section as well as panel data (with fixed effects for time and for sector); and she uses the instrumental variables method, following the work of Ana Revenga ("Exporting Jobs? The Impact of Import Competition on Employment and Wages in U.S. Manufacturing," *Quarterly Journal of Economics*, Vol. 57, February 1992). In short, Kletzer's empirical work is quite exhaustive. Trade economists may not be at ease with a study based on a partial equilibrium approach, but labor economists will certainly appreciate this substantial piece of work.

However, I think the author could have gone further in the treatment of the question addressed. Technical change, for example, is treated in a summary fashion. While Kletzer includes TFP and R&D in some equations, in general she considers technical change a factor that contributes to the unexplained variance of the equations. That is standard practice, but I find it a little disappointing. Kletzer ignores the principle of defensive innovation: technical progress induced in firms involved in international trade or anticipating it. In the latter case, the mere specter of trade can cause job loss. More generally, Kletzer does not take into account the reactions of firms facing an upheaval in their competitive environment due to trade liberalization. Nor does she consider the impact of market structure in the sectors con-

cerned by the trade/employment link (as in Oliveira-Martins, "Market Structure, Trade, and Industrial Wages," *OECD Economic Studies*, No. 22, Spring 1994).

All of these indirect effects of trade shape firms' behavior in the global economy without necessarily entailing a rise in imports, and none of them are addressed in this book. That is a pity, because they are the focus of the most innovative literature on this topic, which has shown that the indirect effects of international trade are not captured by an increase in imports. Excluding these variables inevitably leads to an under-estimation of the effect of trade on employment.

Finally, it also is regrettable that job losses are not broken down by skill level, since the consequences of trade differ as much by skill as by sector. Kletzer shows very clearly which sectors lose and which gain from trade liberalization, but not which workers gain and lose. One naturally has in mind the skilled/unskilled labor distinction, since there can be zero loss of employment overall for a sector but major imbalances in the skill structure of earnings and job losses, generating greater inequality. Kletzer's work does not take into account the full societal effects of international trade.

Kletzer thus treats a *part* of the issue in a thorough and rigorous manner, but a part only. Her book constitutes a useful contribution to the debate and provides an excellent and accessible reference for anyone interested in the links between trade and employment.

Jean-Marie Cardebat

Lecturer in Economics
University Montesquieu-Bordeaux IV

International and Comparative

Retiring the State: The Politics of Pension Privatization in Latin America and Beyond. By Raul L. Madrid. Stanford, Calif.: Stanford University Press, 2003. 312 pp. ISBN 0-8047-4706-7, \$65.00 (cloth); 0-8047-4707-5, \$27.95 (paper).

Profound disappointment in the performance of traditional pay-as-you-go retirement systems has prompted massive structural reform of pension systems in many countries over the past 20 years. Beginning with Chile's adoption