## 20.2 International Trade and Its Effects on Jobs, Wages, and Working Conditions

### Learning Objectives

By the end of this section, you will be able to:

* Discuss how international trade influences the job market
* Analyze the opportunity cost of protectionism
* Explain how international trade impacts wages, labor standards, and working conditions

In theory at least, imports might injure workers in several different ways: fewer jobs, lower wages, or poor working conditions. Let’s consider these in turn.

### Fewer Jobs?

In the early 1990s, the United States was negotiating the North American Free Trade Agreement (NAFTA)[1](#fs-idm352845312) with Mexico, an agreement that reduced tariffs, import quotas, and nontariff barriers to trade between the United States, Mexico, and Canada. H. Ross Perot, a 1992 candidate for U.S. president, claimed, in prominent campaign arguments, that if the United States expanded trade with Mexico, there would be a “giant sucking sound” as U.S. employers relocated to Mexico to take advantage of lower wages. After all, average wages in Mexico were, at that time, about one-eighth of those in the United States. NAFTA passed Congress, President Bill Clinton signed it into law, and it took effect in 1995. For the next six years, the United States economy had some of the most rapid job growth and low unemployment in its history. Those who feared that open trade with Mexico would lead to a dramatic decrease in jobs were proven wrong.

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As of July 1, 2020, NAFTA was officially replaced with the United States-Mexico-Canada (USMCA) free trade agreement. It is broadly similar to the original NAFTA.

This result was no surprise to economists. After all, the trend toward globalization has been going on for decades, not just since NAFTA. If trade reduced the number of available jobs, then the United States should have been seeing a steady loss of jobs for decades. While the United States economy does experience rises and falls in unemployment rates, the number of jobs is not falling over extended periods of time. The number of U.S. jobs rose from 71 million in 1970 to 150 million in 2021.

Protectionism certainly saves jobs in the specific industry being protected but, for two reasons, it costs jobs in other unprotected industries. First, if consumers are paying higher prices to the protected industry, they inevitably have less money to spend on goods from other industries, and so jobs are lost in those other industries. Second, if a firm sells the protected product to other firms, so that other firms must now pay a higher price for a key input, then those firms will lose sales to foreign producers who do not need to pay the higher price. Lost sales translate into lost jobs. The hidden opportunity cost of using protectionism to save jobs in one industry is jobs sacrificed in other industries. This is why the United States International Trade Commission, in its study of barriers to trade, predicts that reducing trade barriers would not lead to an overall loss of jobs. Protectionism reshuffles jobs from industries without import protections to industries that are protected from imports, but it does not create more jobs.

Moreover, the costs of saving jobs through protectionism can be very high. A number of different studies have attempted to estimate the cost to consumers in higher prices per job saved through protectionism. [Table 20.2](#Table_34_02) shows a sample of results, compiled by economists at the Federal Reserve Bank of Dallas. Saving a job through protectionism typically costs much more than the actual worker’s salary. For example, a study published in 2002 compiled evidence that using protectionism to save an average job in the textile and apparel industry would cost $199,000 per job saved. In other words, those workers could have been paid $100,000 per year to be unemployed and the cost would only be half of what it is to keep them working in the textile and apparel industry. This result is not unique to textiles and apparel.

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| Industry Protected with Import Tariffs or Quotas | Annual Cost per Job Saved |
| Sugar | $826,000 |
| Polyethylene resins | $812,000 |
| Dairy products | $685,000 |
| Frozen concentrated orange juice | $635,000 |
| Ball bearings | $603,000 |
| Machine tools | $479,000 |
| Women’s handbags | $263,000 |
| Glassware | $247,000 |
| Apparel and textiles | $199,000 |
| Rubber footwear | $168,000 |
| Women’s nonathletic footwear | $139,000 |

Table 20.2 Cost to U.S. Consumers of Saving a Job through Protectionism (Source: Federal Reserve Bank of Dallas)

Why does it cost so much to save jobs through protectionism? The basic reason is that not all of the extra money that consumers pay because of tariffs or quotas goes to save jobs. For example, if the government imposes tariffs on steel imports so that steel buyers pay a higher price, U.S. steel companies earn greater profits, buy more equipment, pay bigger bonuses to managers, give pay raises to existing employees—and also avoid firing some additional workers. Only part of the higher price of protected steel goes toward saving jobs. Also, when an industry is protected, the economy as a whole loses the benefits of playing to its comparative advantage—in other words, producing what it is best at. Therefore, part of the higher price that consumers pay for protected goods is lost economic efficiency, which we can measure as another deadweight loss, like what we discussed in [Labor and Financial Markets](http://openstax.org/books/principles-microeconomics-3e/pages/4-introduction-to-labor-and-financial-markets).

There’s a bumper sticker that speaks to the threat some U.S. workers feel from imported products: “Buy American—Save U.S. Jobs.” If an economist were driving the car, the sticker might declare: “Block Imports—Save Jobs for Some Americans, Lose Jobs for Other Americans, and Also Pay High Prices.”

### Trade and Wages

Even if trade does not reduce the number of jobs, it could affect wages. Here, it is important to separate issues about the average level of wages from issues about whether the wages of certain workers may be helped or hurt by trade.

Because trade raises the amount that an economy can produce by letting firms and workers play to their comparative advantage, trade will also cause the average level of wages in an economy to rise. Workers who can produce more will be more desirable to employers, which will shift the demand for their labor out to the right, and increase wages in the labor market. By contrast, barriers to trade will reduce the average level of wages in an economy.

However, even if trade increases the overall wage level, it will still benefit some workers and hurt others. Workers in industries that are confronted by competition from imported products may find that demand for their labor decreases and shifts back to the left, so that their wages decline with a rise in international trade. Conversely, workers in industries that benefit from selling in global markets may find that demand for their labor shifts out to the right, so that trade raises their wages.

Link It Up

View this [website](http://openstax.org/l/fairtradecoffee) to read an article on the issues surrounding fair trade coffee.

One concern is that while globalization may be benefiting high-skilled, high-wage workers in the United States, it may also impose costs on low-skilled, low-wage workers. After all, high-skilled U.S. workers presumably benefit from increased sales of sophisticated products like computers, machinery, and pharmaceuticals in which the United States has a comparative advantage. Meanwhile, low-skilled U.S. workers must now compete against extremely low-wage workers worldwide for making simpler products like toys and clothing. As a result, the wages of low-skilled U.S. workers are likely to fall. There are, however, a number of reasons to believe that while globalization has helped some U.S. industries and hurt others, it has not focused its negative impact on the wages of low-skilled Americans. First, about half of U.S. trade is intra-industry trade. That means the U.S. trades similar goods with other high-wage economies like Canada, Japan, Germany, and the United Kingdom. For instance, in 2014 the U.S. exported over 2 million cars, from all the major automakers, and also imported several million cars from other countries.

Most U.S. workers in these industries have above-average skills and wages—and many of them do quite well in the world of globalization. Some evidence suggested that intra-industry trade between similar countries had a small impact on domestic workers but later evidence indicates that it all depends on how flexible the labor market is. In other words, the key is how flexible workers are in finding jobs in different industries. The effect of trade on low-wage workers depends considerably on the structure of labor markets and indirect effects felt in other parts of the economy. For example, in the United States and the United Kingdom, because labor market frictions are low, the impact of trade on low income workers is small.

Second, many low-skilled U.S. workers hold service jobs that imports from low-wage countries cannot replace. For example, we cannot import lawn care services or moving and hauling services or hotel maids from countries long distances away like China or Bangladesh. Competition from imported products is not the primary determinant of their wages.

Finally, while the focus of the discussion here is on wages, it is worth pointing out that low-wage U.S. workers suffer due to protectionism in all the industries—even those in which they do not work. For example, food and clothing are protected industries. These low-wage workers therefore pay higher prices for these basic necessities and as such their dollar stretches over fewer goods.

The benefits and costs of increased trade in terms of its effect on wages are not distributed evenly across the economy. However, the growth of international trade has helped to raise the productivity of U.S. workers as a whole—and thus helped to raise the average level of wages.

### Labor Standards and Working Conditions

Workers in many low-income countries around the world labor under conditions that would be illegal for a worker in the United States. Workers in countries like China, Thailand, Brazil, South Africa, and Poland are often paid less than the United States minimum wage. For example, in the United States, the national minimum wage is $7.25 per hour. A typical wage in many low-income countries might be more like $7.25 per day, or often much less. Moreover, working conditions in low-income countries may be extremely unpleasant, or even unsafe. In the worst cases, production may involve the child labor or even workers who are mistreated, abused, or entrapped in their jobs. These concerns over foreign labor standards do not affect most of U.S. trade, which is intra-industry and carried out with other high-income countries that have labor standards similar to the United States, but it is, nonetheless, morally and economically important.

In thinking about labor standards in other countries, it is important to draw some distinctions between what is truly unacceptable and what is painful to think about. Most people, economists included, have little difficulty with the idea that production by six-year-olds confined in factories, by people who are abused or mistreated, or by slave labor is morally unacceptable. They would support aggressive efforts to eliminate such practices—including shutting out imported products made with such labor. Many cases, however, are less clear-cut. An opinion article in the *New York Times* several years ago described the case of Ahmed Zia, a 14-year-old boy from Pakistan. He earned $2 per day working in a carpet factory. He dropped out of school in second grade. Should the United States and other countries refuse to purchase rugs made by Ahmed and his co-workers? If the carpet factories were to close, the likely alternative job for Ahmed is farm work, and as Ahmed says of his carpet-weaving job: “This makes much more money and is more comfortable.”

Other workers may have even less attractive alternative jobs, perhaps scavenging garbage or prostitution. The real problem for Ahmed and many others in low-income countries is not that globalization has made their lives worse, but rather that they have so few good life alternatives. The United States went through similar situations during the nineteenth and early twentieth centuries.

In closing, there is some irony when the United States government or U.S. citizens take issue with labor standards in low-income countries, because the United States is not a world leader in government laws to protect employees. According to a recent study by the Organization for Economic Cooperation and Development (OECD), the U.S. is the only one of 41 countries that does not provide mandated paid leave for new parents, and among the 40 countries that do mandate paid leave, the minimum duration is about two months. Many European workers receive six weeks or more of paid vacation per year. In the United States, vacations are often one to three weeks per year. If European countries accused the United States of using unfair labor standards to make U.S. products cheaply, and announced that they would shut out all U.S. imports until the United States adopted paid parental leave, added more national holidays, and doubled vacation time, Americans would be outraged. Yet when U.S. protectionists start talking about restricting imports from poor countries because of low wage levels and poor working conditions, they are making a very similar argument. This is not to say that labor conditions in low-income countries are not an important issue. They are. However, linking labor conditions in low-income countries to trade deflects the emphasis from the real question to ask: “What are acceptable and enforceable minimum labor standards and protections to have the world over?”